ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 169 Number 4804 New York, N. Y., Thursday, May 19, 1949 Price 30 Cents a Copy

Mandate To Congress

Poll conducted by "Chronicle" indicates widespread dissatisfaction with NASD, its policies and method of operation. Large majority of returns by both NASD members and nonmembers oppose "5% mark-up yardstick," inquisition by questionnaire and field examinations, prohibition of discounts to nonmembers, and the present trial system. Favor NASD abolition. Returns constitute mandate to repeal Maloney Act.

For many years the COMMERCIAL AND FINANCIAL CHRONICLE has sincerely believed that the National Association of Securities Dealers has been a great deal less than a blessing to the securities industry. It has likewise felt that in consequence of the policies and methods of operation of the NASD, vital harm has been inflicted on other segments of the nation's economy. Prominent in the latter category are the smaller business enterprises whose ability to raise capital via the securities markets is being adversely affected by the policies laid down by the NASD.

As might have been expected, the reaction to our editorial policy was not uniform. Indeed, efforts were made in some quarters to propagate the belief that the great majority of those in the securities field were in favor of the NASD and its method of conduct. For our part, we had good reason to believe that the exact reverse was true. However, knowing we were not endowed with infallibility, we decided to obtain the facts in the case.

Accordingly, we made a decision to conduct a poll among both members and nonmembers of the NASD in order to ascertain the true sentiments of the industry with respect to the so-called voluntary organization and its policies and practices. To this end, one questionnaire was sent to all firms except floor brokers and municipal bond dealers, these latter having been excluded for the reason that they are not subject to the jurisdiction of the NASD. This ques-

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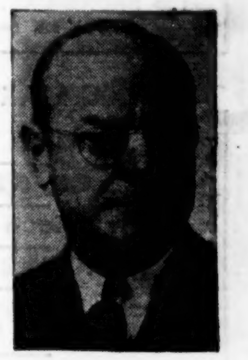
Our Economic Position Exceptionally Strong

By HON. JOHN W. SNYDER*

Secretary of the Treasury

Contrasting present with previous recessions, Treasury Secretary holds current situation is exceptionally strong due to: (1) absence of excessive speculation; and (2) gradual postwar adjustments to normal conditions. Says consumer buying is supported by high income and savings backlog and we are only at beginning of peacetime growth. Says our main objective should be to maintain confidence in national credit and urges intensified savings bond drive.

This annual conference of the National Association of Mutual Savings Banks is the first to be held in Washington since 1931. The 18 years that have elapsed since your last meeting here are years in which broad and far-reaching social and economic changes have taken place in our country.



John W. Snyder

In 1931, the economic outlook was dark. And we know now that the natural forces of recovery were helpless to operate in the environment which had been created by the speculative excesses of the boom period. It is startling to recall today that the interest rate on call money went as high as 20% in the stock market in 1929; and that brokers' loans during that year reached a figure of over 8½ billion dollars. Today, the comparable figure is less than ½ billion dollars. Even more in-

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*An address by Secretary Snyder before the Annual Conference of the National Association of Mutual Savings Banks, Washington, D. C., May 12, 1949.

EDITORIAL

As We See It

Fiscal Policy as Things Now Stand

Since Candidate Truman was visiting all the "whistle stops" of the country last summer and autumn, indeed since he submitted his budget and other annual messages early this year, conditions have changed considerably. It is the opinion of probably a good majority of seasoned observers that these changes are destined to go a good deal further in the months ahead. It was inevitable that such developments as these raise many questions regarding fiscal policy. It was about equally inevitable that diverse opinions as to what ought to be done arise, or at least push themselves to the forefront of current discussion.

It would be a good thing if the powers that be would face this issue of the relationship between public spending, taxation and enlarged borrowing, on the one hand, and the general state of business on the other, and come to a definite and sensible conclusion. Indeed, it will be a very bad thing if no such action is taken. At the moment, two opposing "lines" are developing among the politicians. One is to the effect that public spending must be reduced, economies effected, and governmental activities at least temporarily narrowed in scope in order to permit reduction in taxes without enlarging the public debt. The opposing theory of fiscal policy holds that at times such as these, public spending certainly must not be reduced, ought, as a matter of fact to be in-

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See page 17 for pictures taken at Annual Meeting of Texas IBA Group.

The Readjustment of Business

By SUMNER H. SLICHTER*
Lamont University Professor, Harvard University

Dr. Slichter maintains that despite recessions, our economy is in strong position. Points out debts are low in relation to income and spending is not excessive in relation to cash and demand deposits, and there is still an accumulated demand for housing. Favors industry lowering prices by sacrificing profit margins in order to maintain employment and contends wage increases under present conditions will not be effective in sustaining consumer demand.

I

Business is going through a readjustment. This is made plain by a steadily increasing number of facts. Prices have been falling since last August and September. Wholesale prices are down by over 9% and the consumer price index by nearly 3%. Industrial production has been falling since October. Personal incomes have been falling since December and the proportion of personal incomes spent for consumer goods is dropping. For example, although personal incomes in the first three months of 1949 were about 4.7% above the corresponding period of 1948, retail sales were slightly below the first quarter of last year. New orders for durable goods in the first two months of 1949 were 4.7% below the same period in 1948, and new orders for non-durable goods were 11% below. Contract awards in the first three months of 1949 were about 9.5% below the corresponding period of last year, and new housing starts in the first three months were down to 158,000 in comparison with 177,300 in the same period last year. Until April the number of employees holding jobs has been slightly higher than last year, but average hours worked per week has been less. In April employment for the first time since the end of the war was slightly below the same month of the preceding year.


Prof. S. H. Slichter

The major questions on everyone's minds are: (1) How severe is the readjustment likely to be? (2) How long is it likely to last? (3) What can be done by business and government to limit the severity of the readjustment? My remarks will deal with these three questions.

II

As a foundation for answering these questions one needs to analyze (1) the causes for the readjustment and (2) the fundamental condition of the economy.

The causes of the readjustment are, I think, fairly clear. It may sound like a truism to say that the readjustment is due to a changed relationship between supply and demand, because such a change is the explanation of every readjustment. It is useful, however, to examine just what has brought about the changed relationship between supply and demand. There are three principal reasons. One is the catching up on the more urgent parts of the huge backlog of demand which accumulated during the war. A second is the increase in supply, partly of many raw materials and partly of fabricated goods which had been limiting output. A third is the rise in prices relative to holdings of cash and bank deposits. Let us examine briefly these three reasons.

Everyone knows that there was a huge accumulation of demand during the war. By the end of 1945 the number of automobiles in the country, for example, was less than at the time of Pearl Harbor. In the meantime the number of families had increased by about 2.5 million and the average real income per capita by 22%. The number of dwelling units also increased less rapidly than the number of families. What was true of cars and houses was also true of hundreds of semi-durable and durable goods for which we do not have reliable statistics. Business enterprises, as well as individuals, accumulated a big backlog of demand. Indeed, wartime restrictions even prevented the starting of new business concerns so that there was a drop in the business population during the war followed by a rapid rise in 1946 and 1947.

As goods became available, buyers bid eagerly for them. The eager demand for goods manifested itself througout most of 1945—although the war with Japan did not end until August. In that year expenditures for consumer goods were $11.3 billion more than in the year before, although personal incomes after taxes were only $4.7 billion more than a year before. In other words, for every dollar gain in incomes after taxes, individuals increased their expenditures for consumer goods by $2.62. In the next year, between 1945 and 1946, expenditures for consumer goods again increased faster than incomes. This time, however, the increase in outlay for consumer goods was only $1.47 for every dollar rise in incomes after taxes—indicating some drop in the urgency of demand. Between 1946 and 1947 the urgency in demand continued to drop with the result that expenditures for consumer goods increased $1.21 for every dollar rise in incomes after taxes. Between 1947 and 1948 a significant change occurred — incomes began to outrun expenditures on consumer goods. Between these years consumer expenditures went up only by 68 cents for every dollar gain in incomes after taxes.

A second reason for the changed relationship between demand and supply has been the increase in supply, particularly since 1946. The index of industrial production, for example, rose from 170 in 1946 to 187 in 1947 to 192 in 1948. New non-farm dwelling units started rose from 776,200 in 1946 to 853,500 in 1947 and 928,896 in 1948. There was also a considerably better balance in production, with large increases in some very scarce items. The index of iron and steel production, for example, was over 38% greater in 1948 than in 1946, and in the first two months of 1949 it ran more than 13% above the corresponding months of 1948. Likewise the index of production of non-ferrous metals in 1948 was almost 23% above 1946. The supply of goods has been aided during the last year by a drop in merchandise exports and a rise in merchandise imports. The net excess of exports over imports, which was $9.6 billion in 1947, dropped to $5.5 billion in 1948.

Finally, the change in demand and supply relationships has been brought about by the rise in prices relative to holdings of cash and demand deposits. During the last three years the consumer price index has advanced about 23%, but personal holdings of cash and bank deposits have risen only about 12%. The smaller purchasing power of cash and bank deposits, the less inclined individuals are to reduce them in order to obtain more goods.

For some time, the changing relationship between demand and supply simply caused prices to rise at a decreasing rate. As a matter of fact, there was only a 1.8% rise in the index of wholesale prices between January and July, 1948. Eventually the changing relationship between supply and demand, however, brought about a slow decline in prices. Some prices began dropping early in 1948. By August and September the number of prices which were falling was large enough to offset the prices which were still rising. Consequently the index of all prices began to decline.

As price declines spread and became more general, there occurred a very important change in business conditions. Buying in anticipation of higher prices ceased and some prospective buyers began to wait for prices to fall. The voluntary accumulation of inventories ceased and new orders dropped. In less than three months after the decline in the general price level started, industrial production began slowly to drop. Furthermore, there soon set in a drop in new contract

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*An address by Professor Slichter before the Millers' National Federation, Chicago, Ill., May 11, 1949.

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Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publishers

25 Park Place, New York 8, N. Y.

REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher

WILLIAM DANA SEIBERT, President

WILLIAM D. RIGGS, Business Manager

Thursday, May 19, 1949

Every Thursday (general news and advertising issue) and every Monday (complete statistical issue — market quotation records, corporation news, bank clearings, state and city news, etc.).

Other Offices: 135 S. La Salle St., Chicago 3, Ill. (Telephone: State 0613); 1 Drapers' Gardens, London, E. C., England, c/o Edwards & Smith.

Reentered as second-class matter February 25, 1942, at the post office at New York, N. Y., under the Act of March 8, 1879.

Subscription Rates

Subscriptions in United States, U. S. Possessions, Territories and Members of Pan-American Union $35.00 per year; in Dominion of Canada, $38.00 per year. Other Countries, $42.00 per year.

Other Publications

Bank and Quotation Record—Monthly, $25.00 per year. (Foreign postage extra.)

Monthly Earnings Record — Monthly, $25.00 per year. (Foreign postage extra.)

Note—On account of the fluctuations in the rate of exchange, remittances for foreign subscriptions and advertisements must be made in New York funds

General Comments by Dealers Anent NASD

Expressions reveal marked discontent with respect to over-all policies of Maloney association

During the past several weeks we have published hundreds of comments received from dealers in connection with the poll conducted by the CHRONICLE to ascertain the attitude of the securities industry regarding the National Association of Securities Dealers and its policies and methods of operation. These statements dealt with the impact of the "5% mark-up" philosophy on the market for securities of small business enterprises. Starting with this issue we are reproducing remarks made by dealers concerning other phases of the NASD set-up.

In connection with the subject, we would call attention to the editorial on the cover page of today's CHRONICLE bearing the caption "Mandate to Congress." Therein we not only analyze in detail the results of the poll but also present the final tabulation of the ballots and reproduce the text of the ballot itself.

At this point we present the comments referred to above. In this regard mention should be made of the fact that some firms elected to affix their signatures, while others replied anonymously. With respect to the former, we consider it a matter of fairness not to reveal their identity as time does not permit our obtaining specific permission to do so. Where the comment was made anonymously, this is indicated by the symbol (*) appearing at the end of the statement.

BALTIMORE, MD.

In all the years the NASD has been in existence I do not recollect a single act of this so-called voluntary organization that has been of the slightest benefit to the security business or the dealers in this business. In my opinion there is no reason at all for its being.

BALTIMORE, MD.

The only reason we belong to NASD is that we are a small firm and it is a must. In our opinion it is a "Union" that is worse than the CIO.*

BOSTON, MASS.

Not signed, because of necessity of protecting my business from possibilities of government retaliation for views held. Sad, isn't it?*

BOSTON, MASS.

For obvious reasons I prefer to exercise your option to remain anonymous. The basic principle of judicial procedure is impartiality. It is impossible to have this prevail in any industry where competitors sit in judgment of each other. It is just contrary to human nature. The real danger in a situation of this type would be wherein a broker could be prejudicially condemned before he is ever heard. It is just plain wrong.*

BOSTON, MASS.

Our dues paid to the NASD are nothing more or less than a license fee, the same as we pay the state. Why should we have to pay a license fee to the NASD? Regarding examination, the SEC makes routine examinations. Why should we be subjected to the possibility of **two** examinations a year by **two** different bureaus?

BOSTON, MASS.

You're doing an awfully good job and we dealers owe you a vote of thanks.*

BOSTON, MASS.

Your campaign against the NASD and 5% mark-up rule is not in best interests of the security buyer. Please remove our name from your mailing list for further propaganda in your efforts to abolish the NASD and the 5% mark-up rule.

BOSTON, MASS.

I resent the pontifical attitude of NASD in general, particularly, we will say, in the method by which the 5% rule was crammed down the throats of the members without as much as a by your leave. I particularly resent their right (assumed or otherwise) to snoop without cause. If there is a complaint—yes—otherwise why don't they let decent members alone to conduct their business in a decent way. What if there are occasional technical violations that don't amount to anything? I also resent their attitude of infallibility.*

BOSTON, MASS.

I much prefer to have the over-the-counter security business self-regulated rather than have the government do it.

***Commented Anonymously.**

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Selling Investment Company Shares

By WILLIAM C. CUSACK*
Keystone Custodian Funds

Mr. Cusack, setting down as fundamental principles for salesman: (1) knowing his subject; (2) having confidence in it; (3) knowing when to go; and (4) knowing what to say when he gets there, places emphasis on continuous and uninterrupted services to clients. Cites example of life insurance companies in stressing service idea, and advocates salesman working out investment programs for customers. Urges salesman not to neglect existing accounts in eager search for new ones.

My interest is in the field of the investment company, and whether it is selling investment company shares or selling securities of any type, there are certain fundamental principles of salesmanship that come into play. One of them—and the first one—is that a man must know his subject. (You have heard some of these principles before, but I am going to repeat about ten of them.) Second, he must have a conviction about that subject. Third, he must know where to go. And, fourth, when he gets there he must know what to say.

William C. Cusack

Another point is, he must work hard and diligently, not only to obtain accounts, but he must work equally hard to retain them. And still another point, he must have the ability to place himself in the other person's position, so as to understand the other man's problem.

And then there is something else sales-wise, that I always bring into play, and that is this: a man must not only know the words, but he must know the music that goes along with them. That comes from trial and error. That comes, too, from experience.

Now, unless a man takes into play all these things, plus one or two more, knowing the strong points and also knowing the weak points of the subject, he is going to miss part of successful sales planning. He must never stop in his efforts to obtain those objectives. I am going to take a little poetic license with the poet who was talking about the heights of great men, and I am just going to use the word "salesmen":

"Heights of salesmen reached and kept
Were not attained by sudden flight,
But they, while their companions slept,
Toiled upward through the night."

A few weeks ago there came to the shores of America Winston Churchill, and when he was here he talked about the technological development of the Massachusetts Institute of Technology, and he talked about the great scientific achievements here, and he said it was interesting to him to observe that Great Britain was formerly the leader in industrial development, but that today Great Britain is second and America is the leader.

Investment Company Shares

If a speaker were to come to our shores today and talk to a group of security investors and security salesmen, and if he referred to the investment company, he might say that at one time England was first but that today America is possibly in the lead. But we won't take too much credit, those of us in the industry, but we will say that America has gained a tremendous know-how on how to sell and how to use investment company shares.

You may know the historical background of the investment company business, how the idea started in Belgium about 1815, and spread through Europe, taking deep root in both England and Scotland, later spreading to the United States in about 1890—the first one starting about 1894 and another one in 1904—then the growth in the 1920 era, growth of the management investment trust, the so-called fixed trust; and then the period of the '30s when we had reaction, and the inauguration of the SEC, the 1933 Act and the 1934 Act, and the development of the class theory of securities as in the Keystone setup; and then later in 1940 with Federal regulation and the Investment Company Act, and the development in that period, too, of the so-called formula plan, until today we have arrived at a position where there are approximately one million investors that own about two billion dollars' worth of investment company securities.

Today, where there is legislation in certain Legislatures making investment trust shares legal investments for savings banks; making investment trust shares legal investments for trustees; and another State making investment trust shares legal investments for insurance companies.

And today the New York Stock Exchange has recognized the important contribution of the investment company to the financial picture to such an extent that there are special examinations for those who want to participate in this as a career.

Now I have just two points that I would like to bring out saleswise, one for the younger men and one for the older men, and both younger men and older men, in my opinion, can use them.

Selling Lessons From Insurance Companies

I think we can take a lesson in the selling of securities from the insurance companies. Harold Danser in the course of his talk made reference to the word "service." I obtained a report from the Connecticut Mutual Insurance Company and I noticed the word "service" repeated in there again about a dozen times.

And in analyzing their report, I found two things: One, that in the calendar year of 1948 they had 125,000 service transactions. And, second, they drew the conclusion at the end of 100 years or more that insurance must be sold; people just don't come in and buy it.

That is as true in securities as it is in the selling of insurance. Then in their presentation, also, they do what most of us know they do, they paint pictures; the picture of the man who is retiring, the picture of the man who would like to educate his child, the picture of the man who has a little financial worry and uses insurance to relieve him.

And with reference to that point, you may have seen an ad in the paper the other day about Socrates. It was in a commercial paper; I wasn't reading anything classical or historical. It said: "Socrates took a walk into the market place, and on his return he found so many things he didn't want." If there is one thing in America that the people of America want, and where you and I as security salesmen have an opportunity to service them, it is in the field of financial security, and by that I mean the use of Federal Social Security.

Reference to Social Security

Now, I think the suggestion I have to make, and this is one of the first, sales-wise, with reference to the younger men especially. You heard Harold Danser say that some of them are getting out of this business. Why? They can't make a living, they say. They don't know where to go, and when they get there they don't know what to say, and the going is rough.

I want to offer a specific suggestion on what to do with reference to this Social Security. We have talked about the little man, the man who is buying securities today and the one who participates in Social Security. A specific sales suggestion that I would offer to the younger men is this: Meet the prospect, the working man, on common ground; go to see him about one of his problems, not what you are trying to sell, but his problem.

And what is one thing he is interested in? It is social security, freedom from financial worry. You as the salesman can meet thousands of men and build a clientele by going to see each man who is in this Social Security and tell him that you are rendering a financial service. And part of that financial service means that you will be very glad to explain to him the operation of Social Security and the information that is necessary in order to collect, namely, the proof of birth, the proof of death, the marriage certificate. And then you go on and talk about the Social Security number, and from there talk about financial planning.

And as you convey this information, you will find that many of these people who participate in Social Security have a few government bonds, have some insurance, and have a savings account. All this is sound. These same people may be interested in

(Continued on page 35)

*A lecture by Mr. Cusack, one of two, the 12th of a series in a course on Investment Salesmanship, sponsored by Boston University and the Boston Investment Club, Boston, Mass., April 20, 1949.

Do You Want Articles Under One Cover?

On this page we give an additional lecture in the series on Investment Salesmanship, sponsored by the Boston Investment Club and Boston University, transcripts of which are being published in the CHRONICLE. (Previous lectures appeared on page 4, in our issues of Mar. 3 to 31; April 7 to 28, and May 5 and 12.) The Boston Investment Club is anxious to learn the maximum potential interest for copies of a brochure to contain all of the respective lectures. Inquiries in that regard should be addressed to Dr. Douglas H. Bellemore, Chairman, Economics and Finance Department, Boston University, Boston, Massachusetts.—Editor.

The Great Stock Market Divergence of 1949

By A. J. MESSING
Herzfeld & Stern

Market technician asserts present divergence between industrial and railroad averages indicates early reversal of the market into an important bull phase. Maintains entire market history disproves theory that bull market cannot occur during business recession.

During the early part of March, 1948, nobody seemed to want stocks. Within a few days thereafter, a dynamic and major bull market started which carried the Dow-Jones Industrial Averages up about 30 points within a matter of a few weeks. In the interim, the rails, which nobody appeared to want at any price, enjoyed an even more spectacular rise. The rail average advanced from about 48 to about 65 while the industrials were enjoying their 30-point rise. On March 29, 1948, just as the rise was getting under way, I wrote a market letter predicting that the formation just preceding would be known as the "Great Island Reversal of 1948," that the gap just below the averages at the time would not be closed "perhaps for years," that a bull market Dow theory signal would be given by May, 1948, and a few other conclusions, all of which transpired. (The gap of March, 1948, in the industrial averages has not been closed.)

Arthur J. Messing

At the present time we don't have an "Island Reversal or Gap," but we definitely do have something else which, in my opinion, could prove just as dynamic, in time, as last year's 30-point rise, namely, the divergence between the industrial and the rail averages. I am now ready to express the definite opinion that the lows of the year have been made, because, in my opinion, the divergence between the averages has been of sufficiently long duration as to spell out a major reversal of the trend.

Frankly, I don't know whether the advance will start tomorrow, next week, next month or in three months. Earlier this year I expressed the opinion that the market would do nothing for several months while Congress decided upon such matters as taxes, labor, anti-inflation, etc. I think that we already know just about where we stand on those matters. And, in my opinion, those matters mean more to the market than the lifting of the Berlin blockade or other similar incidents which are a part of our cold war with Russia. In saying that I do not know exactly when this advance will start, I am perhaps acting somewhat prematurely. As yet no uptrend has been established. But the divergence between the two averages is, in my opinion, of sufficient importance and has lasted long enough by far to warrant the presumption that the lows of the decline have been witnessed. **It is out of divergences such as we are witnessing now that important reversals occur.** As so frequently mentioned in the past, the rails broke their November lows as far back as February; the industrials have not done so up to this time; and with every day that passes are less and less likely to do so. And thus, a divergence in the averages has been created at a point sufficiently low to generate an important bull phase from these levels.

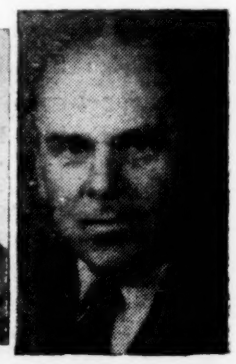
Favored Groups

At this early stage it is extremely difficult to predict the groups which will have the best advances in what I believe will be the coming bull market. Certainly, the airlines, amusements and liquor issues are thoroughly deflated and are, I believe, in important accumulation areas. The aircraft manufacturing stocks should be in position to enjoy important advances from present levels. I think that the rails, if judiciously chosen, will probably show the greatest percentage appreciation. The oils have probably had all the reaction they are going to get, and should advance again, and substantially. And, finally, I think that the coppers are unduly depressed. This group has not formed any base as yet; but the probabilities are that the lows have been witnessed.

Some cynics will argue that you cannot have a bull market in a period of business recession. The entire history of the stock market disproves that theory. And to them I might add: Except for the short bull market in 1948, why were the huge increases in profits and dividends in 1947 and 1948 never translated into much higher stock prices at the time of rising earnings?

Black to Succeed McCloy as Top World Bank Official

The Executive Directors of The International Bank for Reconstruction and Development on May 18 accepted the resignation of John J. McCloy as President of The International Bank and Chairman of the Executive Directors and elected Eugene R. Black President of the bank and Chairman of the Executive Directors.



Eugene R. Black John J. McCloy

Mr. McCloy's resignation and Mr. Black's assumption of duties will take effect not later than July 1, 1949. Until he assumes his new duties as President and Chairman of the Board of Executive Directors, Mr. Black will continue to act as Executive Director of The International Bank for the United States. Meanwhile, he has tendered his resignation as a Senior Vice-President of the Chase National Bank, effective on or before July 1.

President Truman announced on May 18 that Mr. McCloy had been appointed Military Governor of the U. S. occupation zone in Germany, replacing retired Gen. Lucius D. Clay. Mr. McCloy will facilitate transfer of control of the zone from the Army to the State Department.

The State of Trade and Industry

Steel Production
Electric Output
Carloadings
Retail Trade
Commodity Price Index
Food Price Index
Auto Production
Business Failures

In the past week total industrial production showed a slight decline both for the week and the corresponding period in 1948.

There was a slight rise of about 2% in total claims for unemployment insurance in the week ended April 30, establishing a new postwar peak. On the other hand, initial claims dropped almost 6% in the same week.

According to the latest report of the Federal Security Agency's Bureau of Employment Security, unemployment among the 33,000,000 persons covered by the government's jobless pay program is running at nearly twice the levels of the comparable period of last year, but it seems to be following closely last year's pattern of ups and downs.

The Bureau of Employment Security announced last week that so-called continued claims for jobless pay in the week ended May 7 totaled 1,980,800. These claims refer to the total number of persons filing claims for jobless pay who had filed one or more claims previously.

The May 7 level is 57,000 below the figure for the previous week ended April 30. This is the first drop in three weeks in continued claims which have fluctuated widely in the past three months—due largely to administrative factors, such as the beginning in some States of new benefit periods.

Robert C. Goodwin, head of the bureau, said "analysis of the claims data for the past 12 weeks shows that the volume of continued claims is now at about the same level as in early March." The May 7 figure of 1,980,800 compares with 1,978,000 in the week ended March 5.

This, in turn, closely parallels the trend last year, when continued claims were running 900,000 below this year's level.

* * *

Demand for farm products, according to the Department of Agriculture, continues to hold at a "high level, although there are evidences of weakening." Until 1949 crops are harvested, it adds, prices will be subject to changes in crop prospects. Commodity prices again show a lower trend caused by "sharply lower" wholesale prices for farm products and foods.

As for farm income, the Department states that notwithstanding the 10% drop in farm prices during the first four months of 1949 under that of last year, farmers received $8,000,000,000 or an amount only slightly below that of 1948.

The Agriculture Department said larger marketings offset the price declines. In April, farmers received $2,000,000,000 from farm marketings, about the same as March, and slightly under a year earlier. From the sale of livestock in April, farmers received $1,300,000,000, a 4% increase over March.

* * *

Shopping in many parts of the nation in the week was favored by warm, clear weather. Consumers bought moderately more than in the previous week, although total retail trade was slightly less than that of the similar week in 1948. Goods at noticeably reduced prices continued to be offered in many sections.

Increased wholesale orders the past week reflected largely a rise in the demand for seasonal merchandise. Total wholesale dollar volume was moderately below that of the similar week last year. Seasonal goods suitable for promotions were sought by many buyers and deliveries showed general improvement over a year ago.

STEEL OPERATIONS IN CURRENT WEEK TOUCH LOWEST LEVEL FOR YEAR AT 95.6% OF CAPACITY

With the ingot rate slowly on the downgrade and order volume contracting a little, the effect of f.o.b. selling of steel will stand out in stark relief soon. Areas which easily operated at a high rate may find that they are rolling along at a rate under the national average and several points lower than those steel producers in dense consuming areas, states "The Iron Age," national metalworking weekly, in its current summary of the steel trade.

Whether or not such a situation will speed clarification of the legal right of steel firms to absorb freight in a practical manner remains to be seen. Steel users are opposed to f.o.b. selling of steel but are not vocal enough to speed Congress or the Supreme Court on the matter.

A special survey by "The Iron Age" taken among metalworking plants which consume about a third of total steel shipments showed that 87.2% favored the old basing point method of selling steel. Only 12.8% favored f.o.b. without freight absorption.

The easiness in steel supply will mean that many customers will be able to get most of their steel supplies within their own areas. The danger from the present f.o.b. method of selling faces steel producers who are in areas which consume far less than is produced. But until steel leaders are certain that it is legal to absorb freight there is little chance of wholesale freight absorption in meeting competition, observes this trade authority.

Incoming steel business is not as bright as a lot of steel people would like to see it with a current of unrest among steel sales people. Customers are still paring down inventories, but this week, states "The Iron Age," it looks orderly and bears no semblance to the sharp and painful process of mid-1937.

Inventories are still large among some firms, normal in others and small in still other groups, presenting the picture on a tonnage basis. While the cases are still considered isolated, many large steel users are attempting to sell in the open market fairly large bundles of steel they don't need but are not having an easy time finding buyers, the trade paper declares.

There is still no real evidence that the steel operating rate will dip sharply before the middle of July, but notwithstanding this, it keeps going down slowly. It has already dropped 7% from the peak reached early this year. This week the steel ingot rate is off one half a point to 95.6% of capacity. However, eyes in steel are no longer

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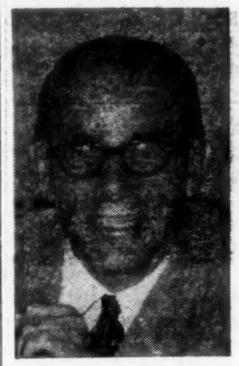
Observations . . . .

By A. WILFRED MAY

INQUIRY IN A VACUUM

The difficulties involved in discerning a way out of the continuing stagnation in our capital markets were significantly highlighted at the forum staged by the New York Financial Writers' Association last Thursday, May 12. Discussion of the topic officially programmed as "How Can the Security Markets Be Stimulated?", was participated in by three top men in the fields of stock exchange trading, utilities and government regulation.



A. Wilfred May

The wide importance of the question, not at all confined to the self-interest of the Wall Street community, is evidenced in the sharp drop during recent years in the proportion of equity to total financing. Expressed as an absolute amount, the proceeds of common stock offerings last year provided only $1.2 of the $22.5 billion total devoted to the nation's expansion of plant, equipment and working capital—this having the effect of accentuating unbalanced debt structures and unduly curtailing the stockholders' dividends.

Single-Factor Thinking

The subject of improving Stock Exchange volume and liquidity and of the capital-financing depression habitually brings forth a variety of approaches and highly controversial credos. The main fault to be avoided is the single-cause explanation with the single-cause cure. Disappointing therefore is it that in this particular full-dress discussion before a most authoritative audience, the Chairman of the SEC confined himself almost entirely to showing the affirmative benefits of the Commission, together with disclaiming the responsibility of regulatory laws and their administration for the trouble. (The full text of Mr. Hanrahan's talk appears on p. 9 of this issue.) Of broader interest, however, was the complete overlooking by this government official of those roots of our market troubles which lie in governmental policies—truly a "material omission" be he a member or not of the political party in power.

The Political Key

Surely we are talking in a vacuum if we talk about investor inhibitions without even recognizing the existence of the current newspaper headlines which confront him, such as President Truman's re-insistence on a tax rise; his stubborn unwillingness to recognize the justice of property owners' protection from labor unions beyond the bounds of the Wagner Act; the Chief Executive's ever-repeated attempts to emasculate the country's monetary system through budgetary raids (again evidenced in his pigeon-holeing—as suddenly confidential—of his Council of Economic Advisers' report reputed to recommend spending cuts); his constant pressuring toward a subsidy and social security state; the White House's continued fundamental attacks on private property with gratuitous diatribes against "gluttonous Wall Street" and grain speculators at election time or whenever else the votes are needed.

While actually deficit-financing and dollar-depreciation may warrant a switch from the *rentier* class into equity securities as the lesser of two evils, such reasoning is "too academic" for the average small investor—and perhaps for nearly all investors during times of industrial recession and stock price stagnation.

Another relevant vital cause of investor-inhibition is the government's taxation of private industry resulting in the undermining of its resources for its self-provision of plant, and subsequently professing the need for itself stepping in to provide the capacity and tools.

Mr. Hanrahan depicts our equity security markets as being currently financed by the consumer. This characterization is valid, but it must be realized that the situation is directly in line with the Administration's adoption of overall Keynesian consumer-spending policies.

How can Mr. Citizen develop an appetite for share-ownership in property when he sees his government leaders (including the TVA-ers) following in the footsteps of Great Britain with its nationalizing, its controls, and its capital levies; and with almost every major effort (witting or unwitting) moving us further to the wholehog of a Labor—not a "property"—government. How will Mr. Citizen become eager to put his money into stocks when he can see that over the past score of years the shareholders have been shoved down to the bottom of the ladder of community groups competing in the maintenance of their living standard?

The contrast between the destructive investment "climate" that is being fostered at home, and the government's stated attitude in proposing adequate safeguards for protecting the investor's prospective dollar abroad, was tellingly cited at the same meeting by President Truslow of the New York Curb Exchange.

The Compulsory Competitive Bidding Question

Chairman Hanrahan in the same talk saw fit to enter into a spirited defense of the compelling of competitive bidding in security distribution. While this question seems irrelevant to the affirmative stimulation of markets it is important in exhibiting the government's anxiety about monopoly in every conceivable field. Moreover, the regulatory body's contentions are important in manifesting its inconsistent shift from its professedly basic concern of protecting the security buyer to the seller.

Typical of the competitive-bidding protagonists, Mr. Hanrahan advanced this tenuously-worded denial of the over-pricing danger: "—[It does not follow that]—over-pricing is the result of the procedure established by the Commission. It is the parties to the deal who determine the price; we pass on it when it is arrived at. It seems to me that the pricing of securities in competitive bidding is a problem of the bidders and not a problem of government regulation."

Cutting through the great mass of argument, in formal briefs and otherwise, it seems to this writer that, in addition to the substitution of price for quality of service, there remains the fundamental

(Continued on page 10)

University of Idaho Asks Bids on Issue Of $650,000 Bonds

Tenders to be opened on May 31

Official notice appears on page 11 of an offering by the University of Idaho of $650,000 not to exceed 4% interest coupon building construction and improvement bonds. Sealed bids for the purchase of the issue will be received by Kenneth A. Dick, Bursar, until 2 p.m. on May 31 at the Administration Bldg., Moscow, Idaho. The bonds will be dated July 1, 1949 and mature semi-annually from Oct. 1, 1950 to Oct. 1, 1970. The bonds have been approved as to legality by Chapman & Cutler, of Chicago.

With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Harold V. Ryan has been added to the staff of Slayton & Co., Inc., 135 South La Salle Street.

With Nehring & Ricketts

(Special to THE FINANCIAL CHRONICLE)

ELGIN, ILL.—Andrew L. Feris has been added to the staff of Nehring & Ricketts, 4 South Grove Street.

Certain Aspects of the Bond Market

By GEORGE J. LENESS*

Partner, Merrill Lynch, Pierce, Fenner & Beane
Members, New York Stock Exchange

Reviewing bond market situation and outlook, Mr. Leness expects no rise in long-term interest rates in advance of another boom period. Notes narrowing spread of income yields on medium and lower grade bonds during recent years and reduced volume of new issues. Sees savings banks holding own in competition with other investment institutions, and urges intensified activity of mutual savings banks to promote thrift. Favors broadened investment field for savings banks, along with higher dividend payments to depositors.

In this paper I have two definite topics to cover. One is the present state of the bond market and its future outlook and the second, which is to me even more important, is the part that mutual savings banks play in our economy and what the outlook seems to be for them. Please bear in mind that investment bankers make their living by buying and selling securities for a modest profit, at least most of the time. Our day to day living is based upon the trends in the bond market and for this reason I can not speak to you as a profound economist or an economic prophet, but rather as a manual laborer in the vineyard. It is clearly basic in both your business and in mine that management of the Federal debt appears to constitute the base of all thinking with respect to future interest rates. There were some individuals a year ago who thought that basic money rates should be increased more sharply to counter inflationary trends. With heavy sales of government issues in progress between financial institutions and the Federal Reserve Banks, the question of a possible imminent break in the peg was not unreal. There was a plausible thought also that an expected change in the Administration might carry with it modifications in debt management policies. However, no change took place in the Administration here in Washington and, more tangibly, deflation is the order of the day. In contrast to heavy purchases during 1948, the Federal Reserve Banks have been able to reduce their holdings of U. S. Governments by more than $2 billion since the end of last November. Approximately the same contraction has been accomplished in Reserve holdings of all U. S. Government securities. During the heavy purchases of 1948 by the banks of the Reserve system, there never was any question of the financial ability of the System itself to absorb enormous quantities of government bonds, rather the debate was as to the wisdom of so doing.

George J. Leness

It now looks as though the problem of any general rise in interest rates has been postponed to at least the later stages of some new business boom. Currently, leeway for a new expansion of business loans by commercial banks is being made by conversion of short-term borrowings, in an important number of cases, into longer-term obligations sold to insurance companies and other lenders. The recent reduction in reserve requirements is another step in this direction.

No Rise in Interest Rates Expected

Because of the testing period which the government bond market has experienced during the past 18 months, it is difficult indeed to envision for some extended period of time any sizable rise in rates on government obligations. If this be true, what can be said of yield relationships between government and corporate issues. Here again I want to disclaim prophetic insight, but there are trends in the demand for new capital, i.e., supply of securities, and in the supply of savings, i.e., the demand for securities, which can be recognized and whose impact can be weighed.

During periods of comparatively stable bond markets there has been a traditional relationship between the yield on government securities and the yield on corporate issues. During different cycles in the bond market, historically this relationship has varied. It also has varied greatly during important changes in bond market levels. Eventually, however, it usually has stabilized itself to within reasonably stable limits. As calculated by Moody's Investors Service, a composite of corporate bonds currently yields 3%, while taxable Treasuries of maturities of 15 years and over provide a yield of 2.40%. The advantage in rate of return from corporates, accordingly, more often than not provides from 40% to 60% more in yield than governments with comparable maturities. During 1945, at times the excess of average corporate yields over governments was as low as 20%. I think it is safe to say that during recent years the yield relationship between high grade corporate bonds and government securities has been closer than it has been in many years. The closeness of the spread has, of course, made it difficult for you savings bankers to earn a very high rate of return for your depositors.

Narrowing of Income Yields

Another trend that has become quite noticeable is that the yield differential between the highest grade corporate issues and those of medium to lower grade has narrowed during recent years. Bonds which are rated A on the average provide a 13% higher rate of return than bonds rated Aaa and, bonds rated Baa afford a 28% yield advantage. The historical yield advantage provided by A bonds over Aaa bonds has been more like 20% and the yield advantage obtainable in Baa bonds over those rated Aaa has approached 50%.

In addition to supply and demand, another factor has affected corporate bonds which, in my opinion, has tended to bring the yield relationship between Aaa and A bonds closer together, i.e., the standardization of bond indentures. As a result of the Public Utility Holding Company Act and the increased powers given by law to various state Public Utility Commissions utility bonds indentures from coast to coast today are pretty much standardized. The bondable property ratios, improvement funds, withdrawal provisions, etc., are all so similar that the prospective purchasers of public utility company first mortgage bonds expect to see nearly identical provisions for each mortgage regardless of the size or location of the company. Furthermore, as the results of actions by the Securities and Exchange Commission and the various local state commisions, the ratio of debt to equity and of debt to plant account has become so standardized that again in this respect public utility operating companies' credits have arrived at the point where differences in values are expressed in minute basis point differentials.

In the industrial field, indenture and sinking fund provisions have also become quite standardized, with the result that industrial credits, even though in widely different industries, bear a close yield relationship to one another. The effect has been the narrowing of the price gap between A and Aaa bonds in this field as well. There is little on the horizon to form a basis for promising a change in this direction. Therefore, there appears to be little if anything to be gained from deferring expansion of corporate bond holdings as issues affording a relatively good combination of yield and quality are offered.

Prospective Supply of New Issues

Concerning the prospective supply of new issues, the outlook is clearly for contraction in the amount of new corporate offerings. The $14.4 billion of new money issues marketed during 1946, 1947 and 1948 has been part of the postwar replacement boom just as much as steel industry operating ratios of 100% of capacity have been part of that boom. As compiled by the United States Department of Commerce, the composite investment account of all business corporations during the past three years has been somewhat as follows — additions to plant and equipment $14.5 billion, increase in inventories $6.7 billion and expansion in receivables $5.0 billion, or a total of $26.2 billion annually. The sums required for expansion of physical capacity and unit increases in inventory have, of course, been greatly inflated by the postwar rise in construction costs and commodity prices.

Depreciation charges and reinvested earnings have supplied $13.9 billion a year, or more than half of the funds required. An aggregate of $8.2 billion annually was provided by drafts on wartime accumulation of cash and government securities, increases in accounts payable and borrowings from banks. After adjustment for debt maturities and other capital retirements, an average of more than $3 billion annually (with nearly $6 billion in 1948) was supplied by new issues.

The facts pointing to contraction of the total amount of new money issues, particularly in relation to the high total reached last year, are the same as those involved in the current easing of general business activity. In dollar figures inventories have about regained a normal relationship with sales. Installment payment obligations on automobile purchases are still abnormally low but expansion and receivables generally should be checked as dollar sales volumes level off and even decline from figures reached in 1948. Expenditures for new plant and equipment also appear to be passing the peak. A survey made by our firm last October uncovered a prospective 13% de-

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*An address by Mr. Leness at 29th Annual Conference of National Association of Mutual Savings Banks, Washington D. C., May 13, 1949.

How to Revive the Stock Market

By WILLIAM GUMPEL*

Ascribing current investment apathy to lack of familiarity of public with securities, as well as burdens placed on stockholders, writer contends greater investment demand for stocks could be secured by: (1) tax relief; (2) permitting life insurance companies to invest in high grade common stocks; (3) reduction of brokerage fees and commissions; (4) new methods of securities salesmanship and advertising; (5) closer and better relations between corporations and stockholders; and (6) simplification of corporate financing.

One reason for the mystery of why the market has not reflected the period of record earnings and dividends in recent years is the apathy of the public in coming into the market. Not only is the stock market business hurt, but the urgently needed risk capital is lacking.

William Gumpel

Whatever the causes for the fear psychology, it prevents the American public from investing its savings and reserve purchasing power, which are greater than ever. The unwillingness to part with savings for risk ventures is hindering a continuing prosperity. The President of the New York Stock Exchange, Mr. Schram wrote: "There never was a time in our history when equity capital was so necessary, and there never was a greater shortage of such capital from individual sources . . . without such a flow of private capital, the government may, in the end, have to take over the task of financing business. That would be the first major step in the nationalization of industry." According to a Federal Reserve Survey of Consumer Finances Part 3, July, 1948, which reported the reasons for and against holding various types of assets, expressed by people with incomes of $2,000 or more, the majority prefer assets with fixed value (bank deposits and government bonds) to assets with changing value (real estate and securities); only 5% favored investment in common stocks: 9% favored investment in real estate; 60% preferred savings bonds, and 32% favored bank deposits. 62% of those who expressed themselves were against common stocks, 30% because they were "not familiar" with them, 26% because they regarded them as "not safe—a gamble," and 6% for other reasons. This proves that least attractive of the four types of investments was common stocks. Its high returns were considered only a minor advantage as compared to the disadvantages occasioned by lack of familiarity and lack of safety. In other words: the majority of all people are against investing in common stocks because they are not familiar with them or consider them not safe—a gamble.

These facts throw light upon the whole problem.

Millions of Americans are blind to the fact that they can buy income-producing securities of the foremost American companies. No wonder that the New York Stock Exchange and its member firms have begun a nationwide campaign in order "to teach the investors with large incomes or substantial savings that they can participate in sharing the country's industrial progress." Who are the stockholders of tomorrow? A financial writer states: "We have developed a new crop of potential investors. The farmers, for instance, have surplus funds which should be made available to industry and so have a great many wage earners and small businessmen . . . and with these people lies both the future of our own business and the future of private financing of American industry . . ." This great program to create the "Nation of Investors" will only be successful, in the long run, if we use more aggressive marketing techniques, adopt better methods of salesmanship, fight for more liberal (tax) laws in the mutual interest of the stock market, the investment industry, the stockholders and the American industry.

America, that has accepted the leadership in the fight for freedom and democracy for all people of the world, occupies only 6% of

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*This article expresses the personal views of the writer. It is not presented as the opinion of Bendix, Luitweiler & Co., with whom he is associated.

*REASONS FOR AND AGAINST HOLDING VARIOUS TYPES OF ASSETS, EARLY 1948

(Spending units with incomes of $2,000 or above)

Reasons For and Against Holding Various Types of Assets	Type of Asset: Bank Deposits	Savings Bonds	Real Estate	Common Stock
For—				
Safe, not a gamble	18%	37%	4%	1%
Interest rate or return satisfactory	2	18	4	4
Liquid	12	2	†	†
Familiar with	†	†	†	†
Help country	‡	3	‡	‡
	32%	60%	9%	5%
Against—				
Not safe, a gamble	4	1	12	26
Interest rate or return low	19	4	1	†
Not liquid	†	3	1	†
Not familiar with	†	1	6	30
Takes lots of money to buy	‡	‡	4	3
Price too high, capital loss expected	‡	‡	34	3
	23%	9%	58%	62%
§No reason given	44	30	33	33
All units	100%	100%	100%	100%

*The questions were: "Suppose a man decides not to spend his money. He can either put it in a bank or in bonds or he can invest it. What do you think would be the wisest thing for him to do with the money nowadays—put it in the bank; buy savings bonds with it; invest it in real estate; or buy common stock with it? Why do you make that choice?"

†Less than one-half of 1%.

‡Not applicable, not coded.

§Most of the respondents gave reasons for or against holding one of the four types of assets, but some respondents, as indicated by this line, did not discuss each one of the four types of assets.

From Washington Ahead of the News

By CARLISLE BARGERON

A couple of years ago the House Un-American Activities Committee found out that the Veterans' Bureau was paying GI benefits to students of three Communist schools, one in California, two in New York State. There was no question at all about the Communists operating the schools with straight out Communist curricula. It was not a case of one or two Communists being on the faculty. It goes without saying that if the benefits were withheld in cases of this kind, the number of colleges and institutions available to the studious heroes would be very limited, indeed. But these were three schools openly operated for improving the minds of Communists.

Carlisle Bargeron

You would think that when the House Committee came across this matter and called it to the attention of the Veterans' Bureau, its bureaucratic face would have been quite red and it would have expressed indignation that the wool had been pulled over its kindly eyes. But this did not happen. Instead, the Bureau said with an impatient shrug that it had known about the three schools all the time. But the law read that if the state government certified a school as O.K. the Bureau had to accept it.

Do you know that the committee and several patriotic groups had to hound the state officials involved and the Bureau for several months before the benefits were stopped? Assuming the Veterans' Bureau was acting within the letter of the law, was there nobody among its vast and unwieldy personnel with enough energy or indignation to call the situation to the attention of the President or to Congress?

Now we learn that at least two Communists are studying the intricacies of atomic science under scholarships given by the Atomic Energy Commission and paid for, of course, by the American taxpayers.

The discovery by members of Congress hit the headlines and even some of the "broadest" minds of official and semi-official Washington were shocked. This, they agreed, was going too far. Steps were promptly taken in Congress towards having the applicants for these fellowships screened by the FBI.

But the flurry of anger or indignation was short lived. Mr. Dave Lilienthal, head of the AEC, appeared before a Congressional Committee with his usual self-assurance. Nothing to get excited about, he said. In the first place it wasn't his fault. The Commission had farmed out the selection of applicants to the National Research Council, and he would much rather an occasional Commy get by than to hurt this council's feelings. These students were not permitted to get to the atomic secret stuff, he explained suavely, and as to the suggestion that the applicants should be screened—it was unthinkable.

If there was one thing on which he felt most strongly it was that the Federal Government should keep its hands off of education. It wouldn't be doing this if the applicants had to undergo screening.

A scientist accompanying Mr. Lilienthal asserted that these searchers for scientific fact are an unusual breed. They are terribly sensitive and their having to be screened would discourage many of them from applying for scholarships. You get the impression that they have to be very delicately tuned so they can see or hear the most imperceptible scientific fact. The slightest jar is liable to throw their thinking out of gear.

Mr. Lilienthal gently explained to the Committee, as a father might explain to a tiny tot, that there is no telling where genius may be found, and the real smart executive such as he is, knows how to use that genius without letting it do any harm.

I don't know how long the American people will have to put up with this sort of stuff. Having observed Mr. Lilienthal in operation for many years, I am amazed at his concern over the Federal Government's getting its hand on education. It is just about the only thing, I am quite sure, that he doesn't want the Federal Government to run. Strangely enough, too, Congress is getting ready to pass a Federal aid to education bill. Modified by Senator Taft, it is supposed to have safeguards against the Federal Government encroaching upon the administration of the fund. But even if it has these safeguards now, the educational aid proposal didn't have them when advanced by the Leftist friends of Mr. Lilienthal. What is being passed is a concession, a bending to the Leftist tide.

This writer is inclined to agree, however, with the viewpoint that the young Communists won't get any secrets that are not known to everybody that wants them except the American people. This is no reason, of course, why they should get any sort of education or training on taxpayers' money. But there is little doubt in my mind that the hush-hush nature of the Commission is for the purpose of not letting Congress know how it spends its funds.

A few weeks ago the gates of Oak Ridge were thrown open amid considerable fanfare as if a new era had arrived. The several thousand residents of the community could come and go without showing passes to the guards and visitors no longer were to be screened.

It so happens that last October I had not the slightest difficulty getting a pass, along with about 20 politicians, to go in and conduct a political rally which some 10,000 persons attended. And at that time it was explained the pass monkey business was to be eliminated soon. The delay was not to permit the hiding of the plants and the secret material. It was just to wait for an auspicious occasion when a celebration could be made of it.

And to get back to Mr. Lilienthal's objections to the scholarship applicants being screened, they have been screened all along. The two known Commies were screened, but nevertheless accepted. It was the FBI, in fact, that tipped off members of Congress about them.

It is an open secret in Washington that J. Edgar Hoover doesn't like many things that are going on and not infrequently his FBI slips a hint of this or that to proper influences in Congress.

The Business Outlook and Bank Investments

By MARCUS NADLER*

Professor of Finance, New York University

Dr. Nadler, pointing out forces of inflation are now receding and nation is returning to more normal pattern of business, holds time is ripe for commercial bankers to review and analyze their individual positions carefully so as to adopt investment policies they can follow under changed conditions. Says principal aims of investment policy should be: (1) maintenance of adequate degree of market stability; (2) sufficient liquidity; and (3) satisfactory earnings from investment portfolio.

Introduction

It is always easier to look backward than forward. The past is always clear, and after the event one can readily see what should and what should not have been done. It is an entirely different matter, however, to look into the future. Nevertheless, it is essential to have at least some idea of where we are heading. To do this we must first know where we came from and where we are today.

Dr. Marcus Nadler

From V-J Day up to the middle of 1948 the United States was threatened with probably one of the most serious economic dangers that ever confronted this country. With the repeal of controls in the summer of 1945, there followed a swift acceleration of the spiral of prices and wages. The index of wholesale prices rose from 105.5 around V-J Day to 169.5 in August, 1948, an increase of 66%. There was a constant decline in the purchasing power of the dollar, at a time when the liquid assets at the disposal of the people were at record levels.

At the end of 1948 the liquid assets in the hands of individuals and corporations in the United States, consisting of currency, deposits and government bonds, amounted to $298 billion. If the people of the United States had had any experience with runaway inflation in the past and had been scared about the future purchasing power of the dollar and spent these funds freely, this country could have witnessed an outburst of inflation, the social and economic consequences of which are horrible to contemplate. Fortunately for the United States, the people maintained confidence in the dollar, and instead of recklessly spending their current income and savings they continued to save. This prevented a really disastrous inflation from taking place.

We are emerging, therefore, from a period of inflation which for a time threatened the entire economic and social structure of the United States. In this process of inflation, the banks played a part. The volume of bank loans increased from $28 billion around V-J Day to $48 billion at the end of 1948. But here, too, thanks to the activities of the American Bankers Association and the good common sense of the bankers of the country, a too rapid increase in the volume of loans was prevented. The deposits created through loans were to a large extent counteracted by the refunding operations of the Treasury, which redeemed maturing obligations held primarily by the commercial banks.

Where are we today? Today the United States finds itself in the midst of a *rolling readjustment* and these words are used deliberately. "Rolling" is an apt word to describe the conversion from the sellers' to the buyers' market, which did not hit the entire economy at once but has affected one industry after another. So far, the readjustment has occurred in many soft goods lines, in household equipment, and in food and farm products. As yet, however, it has not affected heavy steel or automobiles, although it is probable that before many months are over these industries, also, will be in the midst of a buyers' market.

"Readjustment" is a better word to describe the situation than deflation or depression. By readjustment is meant the conversion of a sellers' into a buyers' market, which is usually accompanied by an increase in competition, a decline in prices and profits, and an increase in unemployment. The readjustment is wholesome and while painful to many, is probably one of the best things that could have happened to the economy.

The great progress made by the United States economy in the past has been based on free competition. A sellers' market, where for all practical purposes competition disappears, makes both management and labor lazy and slack, and results in decreased efficiency. The recent decline in profits is bound to lead to an increase in the efficiency of management, while the rise in unemployment will lead to an increase in the efficiency of labor. These factors will reduce the cost of production and lower the break-even point and lay the foundation for sound business in the future. The readjustment is painful, however. The number of failures has increased. In many instances, profits have been converted into losses, and those workers who have lost their jobs have been forced to lower their standard of living.

The readjustment has been aggravated by two important psychological developments. The decline in commodity prices has created more buyers' resistance. Just as in periods of rising prices people are more willing to buy because of the

(Continued on page 14)

*An address by Dr. Nadler before the Convention of the New Jersey Bankers Association, Atlantic City, N. J., May 13, 1949.

Broadening the Utility Equity Market

By A. F. TEGEN*

President, General Public Utilities Corp.

Utility executive cites the financing problems of the utility industry, among which is that present depressed market level makes the "rent" for equity capital too high. Calls on regulatory commissions to "get off their perches" and their "fetish" of equity ratios. Suggests open-end and tap issue technique for distributing new offerings.

My part in this program is to present the views of an issuer on the matter of broadening the market for equity securities, on the assumption, I suppose, that such broadening will assure issuers of equity securities of getting the necessary equity capital on more attractive terms. One could take an academic interest in this subject and meander through the fields of private capital, free enterprise and taxation. On some other occasion, I should like to do this but I thought that for the purpose of this forum it was better to be pragmatic.

A. F. Tegen

Our business, that is the public utility business, is in a substantial growth cycle. There are going to be 10,000,000 more people in the United States in 1960. Customers will live longer. Our standard of living calls for home conveniences which use up the kilowatt hours and cubic feet we sell at an increasing rate. Industrial and commercial customers will continue to mechanize. We are sure we are going to grow and we will need equity capital to finance such growth. Stated directly:

(1) We will need equity capital in each of the next several years at a lower rental than we now must pay.

(2) We expect people who are in the business of seeking out such capital to do a better job for us. Possibly we should inject ourselves into the selling effort.

(3) We expect regulatory commissions to help and in some cases come off their perches and ease up on purely theoretical concepts.

(4) We hope that the security exchanges and possibly security dealers' associations will put their shoulders to the wheel and unsell the unhappy result reflected in last year's Federal Reserve survey of investors' attitudes.

(5) We expect the financial writers to direct their attention to broadening the base by reaching people who now turn the financial pages as if they were meant only for professionals. We expect them to reach the popular magazines.

Some people tell us there is a shortage of equity capital. I am inclined to doubt that but I am not saying that equity capital isn't coy about coming out. I am told that, in the years just ahead, industry as a whole will not need a great deal of equity capital beyond that which our industry will seek. Our concern is that the rent for equity capital is too high. Stated another way, the prices of equity securities are too low and I suppose the object of broadening the security markets is to firm up the demand and, hence, prices.

Many of you have been saying, until recently, that the utility industry could not earn enough to attract equity capital. Said another way, you expected that an increase in equity capital would dilute our earnings. Toward the end of the inflationary cycle—that is up to October or November of last year—there was evidence that that might be the case. However, you underestimated our determination to make a contrary showing. That we are beginning to succeed is now apparent. We subscribe to the view that investors want reasonable assurance that our earnings can be increased in proportion to the increased capital and that dividend policies should be liberal. Vigorous action by issuers on this front will go a long way to stimulate and broaden the security markets.

Selling Costs

However, we have another concern. Many of us feel that it costs too much to sell equity securities. We are not saying that those in the security business are making too much money for we know they are not. But we think that new selling techniques and techniques for minimizing risks should be developed. We point to the New York State deal as an example of what can be done. You know, of course, that established sales outlets did the job.

We also wish that more of the selling effort for equity securities would reach into the areas we serve. I am not speaking of old time customer ownership. We are sure you can find equity investors in our areas and we'd like them to own some of our shares. This brings up my special complaint about competitive bidding—that it substantially ignores the investors in the territory we serve. As an example, I cite the case of Penelec when it sold competitively 101,000 shares of preferred stock in 1945 to 838 accounts—only 84 of which were in the Penelec territory! These securities replaced almost a like amount of Pened preferred with 6,700 accounts in the territory! When Jerome Frank was Chairman of the SEC, he said that he regarded the divestment program under the Holding Company Act had at least one social gain in that it enabled the local utility to be home owned! **If it is desirable to be home owned and if it can be home owned** even in part, just how do you do it under competitive bidding?

Competitive Bidding

While we are on the subject of competitive bidding, let me say that for my money it is "no go" as to commons and preferreds. We do not need the protection of the rule. We think we can make better deals on a negotiated basis and therefore urge its elimination as to commons and preferreds. Certainly if broadening the equity market is desirable, competitive bidding is no help. We would not object to a rule which would be invoked if, in a given transaction, there seems to be a violation of the public or investor interest of the nature which ostensibly prompted the present rule in the first place.

The registration and prospectus technique has become so much a part of our security issuing picture that we would not expect to change it, except that the prospectus is still too comprehensive. It should not be over four pages and should include a sales talk by the selling group. Why kid ourselves—the sales talk is more important than the prospectus.

Something was said before about the regulatory Commissions getting off their perches and easing up on purely theoretical concepts. I was referring to the fetish of equity ratios. This is not a plea for debt financing nor is it a plea for thin equity ratios but it is a plea not to insist on equity financing when either the earnings do not warrant it or when the equity market is soft or when there may be other good reasons which dictate another course. Where corrective measures are necessary, what's wrong with a senior issue subject to a reconsideration by the Commissions when circumstances change?

The Exchanges' Part

Reference was also made to the part the Exchanges can play in broadening the market for equity securities. We hope that they will expand their effort to change the picture presented in the Federal Reserve Bulletin of July 1948 wherein it is reported that 62% of a sample of people with liquid assets said they were against common stocks because (a) they were not safe and (b) they were not familiar with them. Any other interested parties, such as the security dealers' organizations, may very well wish to join the effort. An orchid to Merrill Lynch on this subject.

Financial writers can help in this job too. Coverage of financial news is often too brief and sometimes not wholly accurate. Too many articles are written for the sophisticated. How about some articles in the popular magazines?

If the equity market is to be really broadened, it may be necessary to do away with pre-emptive rights. Based on recent offerings I am not sure that pre-emptive rights are in the best interests of stockholders. Of course where the rights have a value and the stockholder sells them he gets a capital dividend and he undoubtedly likes that but that doesn't alter the fact that his gain often is more apparent than real. I am glad to note that the SEC has come around to a constructive view on the matter of pre-emptive rights.

It has been suggested that equity securities be sold in instalments. The arrangement is fine if the issuer is kept out of it. The $10 down and $10 a month days of the 20's are still too fresh in our minds for us to want to participate.

Extension of Open-End Selling

But there may be another way to reach small investors or new accounts who in the future may be a considerable source of equity funds. Please do not interpret this as a latent plan of GPU since we have pre-emptive rights in our charter and could not use the plan. This suggestion is borrowed from the "open end" idea of the investment trusts and the "tap issues" of the U. S. Treasury. The idea might work out something like this: A company would calculate its equity needs, say for 12 months ahead or some other appropriate time, and determine the number of shares which would approximately bring the desired amount of proceeds. Of course the maximum amount to be offered would have to be fixed and that presumably would be only enough to cover capital needs for a given period and would have to bear a reasonable relation to the outstanding shares. It would offer to sell such shares to accounts in a given area or to new accounts generally — through established sales outlets. The price to the purchaser could be the closing price of the previous day. The sales outlet would get a commission approximately twice the commission if it were an Exchange transaction or whatever amount might be appropriate. A dealer-manager might very well be employed to handle the distribution. Of course steps may have to be taken to stabilize. Under this plan the issuer has no guarantee of receiving proceeds on a given day and possibly the plan wouldn't work where that is necessary but capital requirements for expansion purposes usually do not come on a single date. The idea might work especially well with preferreds. Of course, it bumps head on into pre-emptive rights and quite possibly into the Securities Act of 1933, Stock Exchange regulations and the Holding Company Act. However, it strikes me as a workable idea. If it does violence to notions or regulations, let's change the notions and regulations.

*A talk by Mr Tegen before the New York Financial Writers' Association, May 12, 1949.

Dealer-Broker Investment Recommendations and Literature

It is understood that the firms mentioned will be pleased to send interested parties the following literature:

Canada — Monthly commercial letter — The Canadian Bank of Commerce, Toronto, Ont., Canada.

Drug Industry — Circular — Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Economic Recovery of Europe and the ultimate effect upon government bonds of Great Britain, Belgium, Sweden, Netherlands, Norway and Denmark — New study—Zippin & Co., 208 South La Salle Street, Chicago 4, Ill.

Operating Statements of 34 Municipal Electric Systems in the TVA Area—Illustrated brochure —Equitable Securities Corporation, 322 Union St., Nashville 3, Tenn. and 2 Wall Street, New York 5, N. Y.

Over-the-Counter Industrial Stock Index — Booklet recording 10-year performance of 35 industrial stocks—National Quotation Bureau, Inc., 46 Front Street, New York 4, N. Y.

* * *

Alaska Airlines Incorporated—Study—in current issue of "Financial Survey" — Peter P. McDermott & Co., 44 Wall Street, New York 5, N. Y.

Amalgamated Sugar—Analysis —Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

Central Hanover Bank & Trust Co.—Analysis—Blair & Co., Inc., 44 Wall Street, New York 5, N. Y.

Also available are studies of **Wisconsin Power and Light Company**, and **National Fire Insurance Company** and a review of the **Electric Utility Industry.**

Central Public Utility 5½/52— Analysis and comment on 1948 report—New York Hanseatic Corporation, 120 Broadway, New York 5, N. Y.

Chicago Daily News, Inc.—Circular—Swift, Henke & Co., 135 South La Salle Street, Chicago, 3, Ill.

Commonwealth & Southern Corporation—Comprehensive special analysis of the company with special reference to the enhancement possibilities of the common stock upon consummation of the plan of reorganization of the company—$2.00 per copy—Kalb, Voorhis & Co., 25 Broad Street, New York 4, N. Y.

Commonwealth & Southern Corporation — Circular — Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

Consolidated Paper Corporation, Limited—Analysis—James Richardson & Sons, 367 Main Street, Winnipeg, Man., Canada and 80 King Street, West, Toronto, Ont., Canada.

Doehler-Jarvis Corp.—Circular Auchincloss, Parker & Redpath, 52 Wall Street, New York 5, N. Y.

Dresser Industries, Inc.—Analytical comment—Eastman, Dillon & Co., 15 Broad Street, New York 5, N. Y.

Also available is a study of **Pennsylvania-Dixie Cement Corporation.**

Ero Manufacturing Company— Analysis of low priced stock with speculative appeal — Straus & Blosser, 135 South La Salle Street, Chicago, 3, Ill.

Also available is an analysis of **Kerr-McGee Oil Industries, Inc.**

Fernandina Port Authority, Fla. 4% Toll Road Revenue Bonds— Circular—Allen & Company, 30 Broad Street, New York 4, N. Y.

Food Fair Stores, Inc.—Circular —Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

Marlin-Rockwell Corp. — Circular—Barnes, Bodell & Goodwin, 257 Church Street, New Haven, Conn.

Middle South Utilities, Inc. — Analysis—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Missouri Pacific — Circular — Sutro Bros. & Co., 120 Broadway, New York 5, N. Y.

New England Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Oregon Portland Cement—Late data—Lerner & Co., 10 Post Office Square, Boston 9, Mass.

Petroleum Heat & Power Company—Analysis—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Also available are leaflets on **Irving Trust Company** and **Central Hanover**, and a discussion of the current situation in Texas **Crude Oil.**

Ryder 16mm Services, Inc. — Analysis — Write for copies to H. R. O'Neil, Jr., Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Safeway Stores, Inc. — Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Southwest Airways—Circular— Marache, Sims & Co., 458 South Spring Street, Los Angeles 13, Calif.

A. E. Staley Manufacturing Co. — Memorandum — Newburger & Company, 1342 Walnut Street, Philadelphia 7, Pa.

Suburban Propane Gas Corp.— Analysis — Amott, Baker & Co., Inc., 150 Broadway, New York 7, N. Y.

Time Incorporated—Analysis— William A. Fuller & Co., 209 South La Salle Street, Chicago 4, Ill.

With Collin & Blood

CANTON, OHIO — Harlan H. Montis has become associated with Collin and Blood. He was with Otis & Co. in the past.

No Depression in Offing: Townsend

Economist points to absence of over-extended private credits as precluding repetition of the business collapse of 1921.

There is no evidence as yet that an actual depression is in the offing, W. W. Townsend, nationally known economist and partner in Townsend-Skinner and Company, New York, told members of the National Machine Tool Builders' Association at dinner session of the Association's annual Spring Meeting in Edgewater Beach Hotel at Chicago, on May 12.

W. W. Townsend

"No one ever heard of a depression which everyone expected, as any danger clearly anticipated is about three-quarters averted. Today, there is no excess of optimism, no undermargined positions in the security markets, no speculation in commodities, no unwarranted inventory expansion and any depression that may overtake us will be largely emotional and probably of very short duration," Mr. Townsend pointed out.

Continuing, Mr. Townsend stated:

"It is important to recognize the difference between a recession and a depression. A recession is a return from an abnormally high level of activity to a normal level of activity and is healthy. A depression is a retreat from a normal level of activity to a subnormal level of activity and is unhealthy.

"A large part of the troubles which beset the world today can be traced to confusion in the use of words, misrepresentation of the basic economic laws and the search for some Utopia in which 'security' can be provided at no cost.

"This country has merely moved pretty well into the recession stage. There is no evidence, as yet, that an actual depression is in the offing.

"Thrift is being deprecated and production is supposed to be the consequence, not the cause, of purchasing power. Democracy means one thing to us and another thing to the Russians. The basic economic laws can be circumvented, they cannot be repealed and in Nature there are neither rewards nor penalties, only consequences.

"Prices and profits both depend upon the public's capacity to spend and their willingness to spend. At no time in our previous history have we had so much purchasing power in this country as we have had during the past few years, as a result of the monetization of credit in order to implement the New Deal and later to win the war, and at no time in our history has so much of this credit-created money resulted from the monetization of government credit.

"In practically every previous period of credit expansion the proportions have been approximately 10% government credit and 90% private credit. Today's proportions are 57% government credit and 43% private credit, and because the government can print the money if it is demanded, that much of its purchasing power is noncollapsible. We have literally put a floor under about $70 billion of excess purchasing power.

"Under these circumstances prices may decline a little further, but the ability of the public to pick up bargains when they appear to be definitely bargains practically guarantees against any such experience as we had in 1921, 1929 or 1937.

"With volume reasonably well assured, with material costs decreasing, with the threat of a fourth round of wage increases practically lifted from our shoulders and with the productivity of the worker himself increasing as the result of the publicity given to sporadic lay-offs in the country, the profits of industry may be somewhat less than they were in 1948, but there is no present reason to anticipate their disappearance."

Business Man's Bookshelf

Current Problems of Immigration Policy—E. P. Hutchinson—American Enterprise Association, Inc., 4 East 41st Street, New York 17, N. Y.—Paper—50¢ (special prices for quantity orders).

Interim Report on the European Recovery Programme, Volume I—Organization for European Economic Cooperation, Paris, France—Paper.

House of Goodyear, The—The Story of the Rubber Industry in America—Hugh Allen—The Corday & Gross Co., 1771 East 25th Street, Cleveland, Ohio—Cloth—$3.00.

Goldman Sachs Group Offers United Biscuit Preferred at 103½

Goldman, Sachs & Co. heads an underwriting group that is offering publicly today (Thursday) 80,000 shares of United Biscuit Co. of America $4.50 Cumulative Preferred Stock (without par value) at $103.50 a share. Proceeds from the sale will be applied to the payment of $3,000,000 of short-term bank loans, and approximately $4,000,000 will be required for construction in process on March 31, 1949 and the acquisition of additional equipment authorized for purchase on that date.

Provision is made for the application of shares to a sinking fund during each year ending July 15, as follows: 1951 to 1961, 1,600 shares per year; 1962 to 1973, 2,000 shares per year; 1974 to 1989, 2,400 shares per year. The shares are redeemable at the option of the company at prices beginning at $108.50. For the sinking fund the shares are redeemable at $104.50 prior to July 15, 1959 and at $103.50 thereafter.

United Biscuit Co. of America is engaged principally in the manufacture and distribution by its own truck delivery system of varied lines of crackers, cookies and biscuits. The territory served includes most of the trading areas of the United States, except the Pacific Northwest, certain areas in New York City, and certain districts in California and in the Gulf States.

Heller Group to Study Brown & Bigelow

A group of security analysts headed by Stanley Heller of Stanley Heller & Co., Members of the New York Stock Exchange, will leave on May 21 for St. Paul, Minnesota where they will make a survey of Brown & Bigelow, manufacturers of calendars, playing cards, and other remembrance advertising novelties.

The SEC and the Equity Market Stagnation

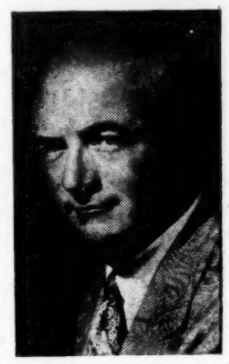
By HON. EDMOND M. HANRAHAN*

Chairman, Securities and Exchange Commission

SEC Chairman points out consumer in lieu of investor is financing increase in productive capacity. Defends SEC's role against charges of responsibility therefor. Denies Commission's responsibility for great diversion of financing into private placement. Maintains Commission in lieu of either encouraging or discouraging speculation, Commission performs constructive function in making information available.

In spite of short-range and short-sighted temptations to finance with excessive debt, the advantages of sound equity capitalization are obvious. I think I can safely assume that our problem is not to educate ourselves to the need for equity financing, but to find ways of stimulating it.

Industry added about $22.5 billions to its plant, equipment and working capital in 1948 through the issuance of long-term debt and equity securities, and through the retention of earnings. Only $1.2 billions of these additions came from the sale of equity securities. $5.6 billions came from the sale of long-term debt. The remainder was internally produced from accumulations of earnings.



E. M. Hanrahan

At the same time industry added over $17 billions to plant and equipment and over $4 billions to net working capital. It is obvious that the vast part of this increase in our productive capacity was provided by the American consumer and not the investor. If we had any guarantee that these internal sources in earnings would continue to be sufficient to satisfy the bulk of our needs for new investment we could perhaps continue to ignore our capital markets. But none of us can safely assume that our economy can continue to prosper, can continue to replace and improve the productive facilities that provide us with goods and employment without a broad and receptive market for new equity capital issues.

Financing always costs something. When a new issue is floated the costs are to some extent obvious. Not only are the expenses of distribution taken into account but existing shareholders must consider also what they get in exchange for sharing their position with new stockholders or adding to the charges on earnings ahead of them in selling senior securities. Somewhat less obvious but nonetheless real, are the costs of internal financing. For it can take place only as a result of withholding dividends. The large stockholder whose income must be shared liberally with the government is well-satisfied to see his earnings retained; but the small shareholder whose misfortunes are lack of income rather than high taxes is not so satisfied.

Saving Trend Tied to Bonds

The war years accentuated a trend in our economy toward the emergence on the one hand of a wage group earning enough to make large segments of our population a potential source of direct investment, and on the other, of vast and rapidly growing institutional accumulations of savings. Into these institutions are channeled vast funds and, because of custom, law and economic necessity these funds tend to find their way into investment in bonds.

With this emerging pattern must come corresponding adjustments in the ways of finance, if we are not to miss the opportunity to keep our securities markets a constant and adequate source of capital. The challenge is to direct the resources of individuals to whom direct investment is a novel adventure according to sound proportions of equity and debt.

To do this requires in part a re-education of the American middle group wage earner and small businessman. It calls in part for a re-examination by our industrial managers and our financial community of the opportunities we are missing for promoting sound direct investment by vast numbers of our people.

The SEC's Role

Perhaps the most pertinent contribution I can make is to outline the role of the Securities and Exchange Commission in helping business to have access to these pools of saving for the building of productive capacity. The Commission is a convenient target for those who choose to complain rather than to construct. Healthy griping, as the army discovered, is good for morale—but we should not fool ourselves about the real problems that we face.

What keeps the small investor from buying equity securities? The Federal Reserve "Bulletin" recently published a study of consumer finances which shows that, in a survey of thousands of people at representative sampling points, only 5% were in favor of owning stocks. Even in the higher income brackets there was considerable feeling against common stocks, and the vast majority of this feeling was that common stocks were a gamble in unfamiliar territory. I think it obvious that Americans are not afraid of a gamble. The deterrent, therefore, is probably not so much that a gamble is involved, but that it is a gamble in a game where the rules are not understood, and the risks are difficult to appraise. It is a familiar theory to all in the financial community that a well-balanced portfolio should be adjusted as between stocks and bonds according to changes in market conditions. I wonder how many of our potential middle group investors know that. I wonder whether the potentialities of equity as a hedge are understood. However, even if these theories were understood would that be all that would be neces-

(Continued on page 36)

*A talk by Mr. Hanrahan before forum-dinner of the New York Financial Writers' Association, May 12, 1949.

Missouri Brevities

Charles A. Semrad, President of St. Joseph Light & Power Co., in the company's annual report for the year 1948 stated in part as follows: "To finance the construction program for the years 1949-1951, inclusive, additional capital funds will be required. Plans are in progress to secure all or a substantial part of this new money by the middle of 1949 through the sale of additional common stock to the company's parent, Continental Gas & Electric Corp., and the sale of bonds to the public." At present, all of the common stock of the St. Joseph utility firm is owned by Continental almost all of whose stock in turn is owned by The United Light and Railways Co. During February, 1949, a policy of liquidation of the parent companies was announced.

In connection with the liquidation it is contemplated that St. Joseph's common stock will be distributed, probably during the latter part of 1949, to the common stockholders of the parent companies. Upon completion of this distribution the St. Joseph common stock will be held by a large number of public investors.

The St. Joseph firm reported a net income after charges and Federal income taxes of $574,432 for the calendar year 1948, compared with $283,712 for the year 1947. Current assets at Dec. 31, 1948 amounted to $1,868,820, and current liabilities $996,363.

* * *

A group of 78 underwriters, including A. G Edwards & Sons, Newhard, Cook & Co., Reinholdt & Gardner, I. M. Simon & Co., Stern Brothers & Co., Stifel, Nicolaus & Co., Inc. and Stix & Co., and others, on April 26 publicly offered for the account of United Gas Corp. 435,282 shares of common stock (par $10) of Mississippi River Fuel Corp., St. Louis, at $30 per share. In addition, Mississippi River Fuel common stockholders of record April 12, 1949 were given the right to subscribe on or before May 9, 1949 for an additional 327,610 shares of common stock at $27.25 per share, the proceeds of which are to be used in the company's expansion program. Of these 327,610 shares, the stockholders subscribed for 326,216 shares, the remaining 1,394 shares being taken up by 12 investment houses.

* * *

Century Electric Co., St. Louis, for the three months ended March 31, 1949 reported net sales of $3,343,511, and net profit, after charges and income taxes, of $26,572, equal to five cents per share. This compares with net sales of $5,664,540 and net after taxes of $541,748, or $1.04 per share, for the corresponding period of last year. Current assets at March 31, 1949 amounted to $7,809,802, and current liabilities $2,732,947.

* * *

Monsanto Chemical Co. and American Viscose Corp. have joined in the formation of a new company to engage in research and development work in the field of synthetic fibers. The new corporation, as yet unnamed, will be headed by Dr. Carroll A. Hochwalt, a Monsanto Vice-President, and will pursue its research and development work through the laboratories of Monsanto and Viscose. William Ewing of New York, partner of Morgan, Stanley & Co., and a Director of American Viscose, will be a member of the board of the new affiliate.

* * *

Of the 56,000 shares of common stock (par $1) of The Southwestern States Telephone Co. offered to the company's common stockholders of record April 20, 1949 at $10 per share, 8,905 shares were subscribed for. The remaining 47,095 shares were publicly offered, after the rights expired on May 7, 1949, at the same price, by a group of five underwriters which included G. H. Walker & Co. of St. Louis and Prescott, Wright, Snider Co. of Kansas City. The net proceeds are to be used to defray part of the cost of extensions, additions and improvements to the utility firm's properties.

* * *

Included in the nationwide syndicate, which on May 4 publicly marketed 1,500,000 shares of Pacific Gas & Electric Co. 5% redeemable first preferred stock, series A (par $25), at $26.75 per share and dividends, were the following Missouri bankers: Dempsey-Tegeler & Co., Newhard, Cook & Co., Smith, Moore & Co., Stern Brothers & Co. and Stix & Co.

* * *

McQuay-Norris Manufacturing Co., St. Louis, for the quarter ended March 31, 1949 reported a net profit, after Federal income taxes and dividend requirements on the preferred stock, of $53,979, equivalent to 15 cents per share on the 355,939 common shares outstanding. During the three months ended March 31, 1948, the profits available to the 355,787 shares of common stock were $271,580, equivalent to 76 cents per share.

* * *

Stix & Co. also on April 18 participated together with 30 other underwriters in the public offering of 104,000 shares of Shareholders' Trust of Boston at the net asset value in effect at the time purchase orders were received plus underwriting discounts and commissions. This offering expired at 4 p.m. (EDST) on May 18.

* * *

Gleaner Harvester Corp., Independence, for the six months ended March 31, 1949 reported net sales of $5,773,493, and net profit after Federal income taxes of $1,306,308, equal to $3.26 per common share, as against sales of $3,894,926 and net of $866,553, or $2.88 per common share, for the same period a year ago.

* * *

Reinholdt & Gardner, I. M. Simon & Co. and Barret, Fitch & Co., Inc. participated, together with a nation-wide group of underwriters, in the public offering on April 26 of $40,000,000 National Distillers Products Corp. 25-year 3¼% sinking fund debentures due 1974 at 101.31% and accrued interest.

* * *

Among the nine underwriters who on May 6 publicly offered $10,000,000 Kansas Power & Light Co. first mortgage bonds, 2⅞% series due 1979, at 101.50% and interest, was Stern Brothers & Co. of Kansas City.

* * *

Smith, Moore & Co., St. Louis, was among those participating in the public offering on April 21 of 70,000 shares of Merck & Co., Inc. $4 cumulative convertible second preferred stock, without par value, at $102.75 per share and accrued dividends.

* * *

Other Missouri firms reported earnings per common share for latest fiscal year as follows: **Mid-Continent Airlines, Inc.**, 27 cents (against 13 cents, before giving effect to retroactive adjustment of mail revenue equal to 34 cents); **Midwest Piping & Supply Co., Inc.**, $6.21 (against $4.91); **Missouri Edison Co.**, 93 cents (against $1.04); **St. Louis-San Francisco Ry. and Subsidiaries**, $3.46 (against $3.25); **Stix, Baer & Fuller Co.**, $3.53 (against $4.08); and **May Department Stores Co., and subsidiaries**, $6.52 (against $5.94).

Dean Witter Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—John W. O'Neill has become affiliated with Dean Witter & Co., 45 Montgomery Street, members of the New York and San Francisco Stock Exchanges. Mr. O'Neill was previously with Frank Knowlton & Co.

With Merrill Lynch Co.

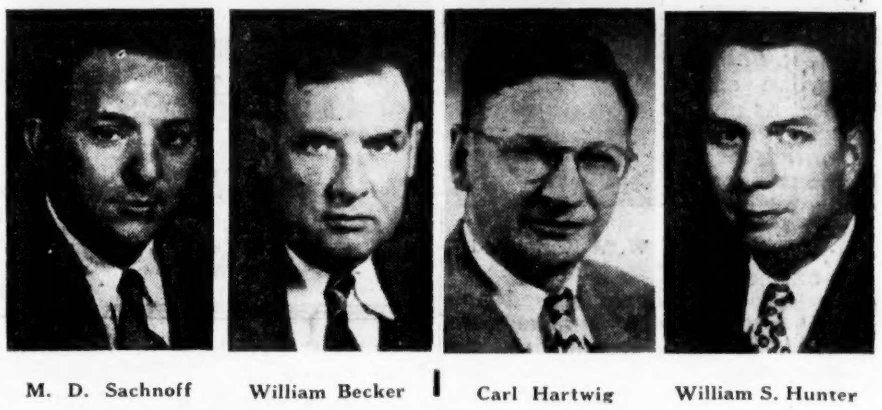
(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert L. Ingles has joined the staff of Merrill Lynch, Pierce, Fenner & Beane, 523 West Sixth Street.

NSTA Notes

BOWLING LEAGUE OF BOND TRADERS CLUB OF CHICAGO

The bowling league of the Bond Traders Club of Chicago will hold its annual dinner at the Hollywood Room, Morrison Hotel, May 26, at which time it will distribute prizes to the winners of the league and install its new officers as follows:



M. D. Sachnoff William Becker Carl Hartwig William S. Hunter

M. D. Sachnoff, President—Straus & Blosser.
William Becker, Vice-President—L. F. Rothschild & Co.
Carl Hartwig, Treasurer—Link, Gorman, Peck & Co.
William S. Hunter, Secretary—Lee Higginson Corporation.

TWIN CITIES SECURITY TRADERS ASSOCIATION

The Twin City Security Traders Association announces that "Operation Fishbite," which will be held the weekend of June 10, 11 and 12, is the most ambitious of the famous summer parties yet given by the Group. For this occasion, Grandview Lodge, on gorgeous Gull Lake in Northern Minnesota, has been taken over in its entirety. Gull Lake itself is a beautiful lake in the heart of the Paul Bunyan territory. There are hundreds of lakes within a 30-minute drive of this big one, and all abound in fresh water, fighting fish, such as Walleyed Pike, Great Northern Pike, bass, and many other species of the finny tribe. There is still some question as to whether the fish, or the stories about them, are the biggest whoppers; but the local group assures everyone that comes that they will receive their limit in fish, fun, food, firewater and fellowship, to say nothing of golf, boating, etc.

As hosts, the Association would like to invite every key pusher and partner in the United States, but unfortunately the super facilities of this amazing resort are limited to 150 investment minded men; and the reservations must be in early. "Please, all ye within reading distance, drop a note to, or call on the teletype, Bob Pillsbury at the Minneapolis First National Bank for your reservation in the Land of the 10,000 Lakes," is the call of Twin Cities.

Arthur J. Wilson Now With H. Hentz Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Arthur J. Wilson, well known in La Salle Street for the past 20 years, has become associated with H. Hentz & Co., 120 South La Salle Street. He will organize and direct a retail Investment Trust Department. Mr. Wilson was previously with First Securities Company of Chicago in charge of research department and with Swift, Henke & Co. Prior thereto he was with Davies & Mejia and other Pacific Coast firms.

Brown & Harvey Open

(Special to THE FINANCIAL CHRONICLE)

GREENVILLE, MAINE — John H. Brown and Ernest B. Harvey have formed Brown & Harvey to engage in a securities business.

John T. Boylan With A. G. Becker & Co., Inc.

CHICAGO, ILL.—John T. Boylan has become associated with A. G. Becker & Co., Inc., 120 South La Salle Street. Mr. Boylan in the past was manager of the municipal trading department for Stifel, Nicolaus & Co., Inc.

Herrick, Waddell Adds Four

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—James R. Alsobrook, Thomas G. Bell, Jr., John G. Duckworth, and Miles O. King are now associated with Herrick, Waddell & Reed, Inc., 418 Locust Street.

King Merritt Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—W. D. McGee is now with King Merritt & Co., Inc., 408 Olive Street.

Observations

(Continued from page 5)

incontrovertible fact that in the selling of all objects—be they art objects, junk, or real estate—the *auction* technique introduces a psychological element inevitably increasing the price.

Thus, in lieu of stimulating security marketing, the government's competitive-bidding attitude actually is likely to deter many potential new-issue buyers.

* * *

This writer trusts he has made it clear that he attaches to neither the SEC—nor to any other "single cause"—the onus for our capital financing difficulties. To the contrary, it must be appreciated that they are the result of a combination of elements running the gamut ranging from the constant international threats to domestic political attack to the changed flow of savings and their institutional growth to lack of knowledge about companies or investment to taxation to fear of illiquidity—and even to the psychological foibles of the investors themselves. But in this array the political elements must not be singled out for overlooking, either by private investigators or the government's experts.

Stimulating the Securities Markets

By FRANCIS ADAMS TRUSLOW*
President, New York Curb Exchange

Mr. Truslow asserts increased stock exchange volume is prerequisite to adequate equity capital financing. Suggests following factors as inhibiting individual's stock buying: (1) lack of knowledge or money; (2) lack of confidence in a company or business in general; (3) fear of disproportionate tax impost; and (4) doubt about later resalability. Advocates more intelligent security-selling efforts, and tax reforms devised through joint committee of Congress and representatives of farmers, industry, finance, labor, and the Treasury, as steps to improve "investment climate."

There are four simple statements which indicate that our subject is of national moment and not merely a local problem affecting a limited number of pocketbooks.

First: Plans to spend $55 billion on industrial improvement and growth in this country are now projected during the next five years if industry can get partners who will put up a substantial part of the cost in exchange for stock ownership.

Francis A. Truslow

Second: In the last few years the percentage of all new capital raised by selling new stock issues has dropped from over 50% to less than 20% of the total.

Third: In the last three years the volume of transactions in the public securities markets has dropped somewhat over 30% and average stock prices are substantially lower than they were three years ago.

Fourth: Out of long years of experience we know that you can't sell new stock issues when the volume and price levels of established stocks on the stock exchanges are falling.

From these four simple statements we can draw a fairly safe conclusion. Industry isn't going to be able to raise the equity capital it needs for its programs, unless there is a rise in volume and prices on the public stock markets.

I don't believe there can be any doubt that the question: "How Can Securities Markets Be Stimulated?" is a question of national importance. Unfortunately, it isn't like the usual $64 question. No one knows the answer. However, we must search diligently for the answer and the New York Financial Writers' Association has done us all a service in staging this hunting party.

If we assume that some answer must be found because of the importance of the question and if we assume that there are probably several right answers and countless wrong answers and no one can be sure which are right, how is the best way to get at the problem?

Narrowing the Question

I think the first thing for me to do is to cut the question down to a size which I can understand. One of the troubles with the problem is that it seems so big and complicated that trying to think about it all at once just results in fuzzy thoughts and generalities.

Our problem can certainly be reduced to something much more simple than the question of how to stimulate the "Securities Markets." Let's forget all about the many stock exchanges that are lumped in that phrase and consider only one exchange—preferably of course, the Curb. Then let's recognize that the Curb, which is only one of many securities markets, is also divisible into many hundred separate markets in the many hundred securities which can be dealt in on its floor. Then let us reduce the problem down to the level of any one of these markets in any particular stock.

After this peeling process, we can ask ourselves "How Can the Market in X Stock Be Stimulated?" It is the same question only cut to more manageable size. If the number of people who want to buy X stock increases, the volume of transactions, and probably the price, will also increase. To use the words of our question, the "market will be stimulated."

Perhaps we can actually reduce the problem even further to two little questions:

(1) What makes a man buy stock and what stops him? and,

(2) How can what it takes to make him buy a stock be supplied and what prevents him be removed?

Obviously this reduction to size eliminates consideration of the seller's side of the market without which there wouldn't be a market. But for the purpose of this stimulating discussion, I think we can assume that if buyers are looking for sellers they will find them at a price.

"What Makes a Man Buy a Stock?"

First: He must have the knowledge and the money.

Second: He must have the willingness to exchange his cash for a share in a company in the hope that the share will increase in value or will pay him income or both.

Third: He must be assured that he will have a market in which he can sell if he wants to cut his losses, take his profits, or recover cash for other purposes.

"What Prevents a Man From Buying a Stock?"

First: Lack of knowledge or money.

Second: Lack of confidence in a company, or in business or the future in general.

Third: Fear that taxes will take away too much of any increase in value or earnings which he might obtain.

Fourth: A dim view of his ability to resell when and if wants to do so.

If these are the requirements and the obstacles to stock purchases as I think they are, the more these requirements are met and these obstacles reduced the more we will stimulate the purchase of stock and the Securities Markets in which those purchases will be made.

I believe that our answer to the big question will be found in seeking ways to generate these requirements and diminish these obstacles at the grass roots level of the individual who could become a buyer.

Let's look at these requirements and obstacles and what might be done about them.

Investor Knowledge

"Knowledge" is a requirement that can only be supplied by the combined efforts of the people in the securities business, government officials, corporate officials educators, and perhaps most of all by financial writers. Knowledge of how corporations are put together and how they operate. Knowledge of what a stock is, how it can be bought and sold, where to obtain reliable information. Knowledge of what a stock market is. Basic knowledge, which seems unpardonably simple to us, must be widely and accurately spread to supply this first requirement. Unfortunately, the biggest part of this job is the work of overcoming current misinformation and old prejudices hung over from another generation which many of us never saw, but from which all of us suffer.

Part of this job is straight salesmanship. Potential buyers will not receive or be persuaded to use this prerequisite of knowledge, unless every partner and employee in our business wakes up to the fact that business is not going to come in unless they go out and bring it in.

Part of this work requires constant and informed inquiry by those who make, and those who approve, the rules of securities markets. We must be sure that our rate structure gives adequate inducement to people to meet the expenses and do the work of finding, informing, persuading and servicing potential buyers. We must be sure that needless barriers are not raised against salesmanship.

At the moment the "money" with which people could, if they would, buy stocks seems to be in ample supply. It is scattered somewhat more widely than it has been in the past; but it is a requirement which probably represents the least of our problems. It is not, however, a requirement that we can completely forget. We may be wrong in our belief that we must reach the people who represent the great base of wealth in this country. Perhaps equity capital can only come from the minority of the population with higher incomes. Perhaps taxes and expenses have rested so heavily on this 20% of the population whose nominal incomes exceed $5,000 that they are already too crippled in their ability to buy stocks. Only time and our efforts to reach the largest but most scattered sources of money can answer this question.

The requirement of "willingness to buy" and the obstacles which stand in its way—lack of confidence and confiscatory taxation—are the conditions which are, in my judgment, the hardest to supply and remove. But here is the area within which we can give the greatest stimulation to the securities markets.

It is extraordinarily easy to destroy confidence—the kind of confidence it takes to risk your savings. It is extraordinarily difficult to built it up again. If men in positions of responsibility make irresponsible promises as to what government can and will spend and give away to special groups in the population it will take a lot of action and not merely other statements by other men in high office to restore confidence. If confidence is to be restored it is essential that irresponsible statements voicing half-baked policies be avoided.

We spend a lot of time, in and out of government, these days trying to find out how to improve the "investment climate" in underdeveloped countries. We say the foreign government must give assurances to our capital that its fiscal policies will be sound, that its tax policies will be fair, that it will not expropriate, confiscate or discriminate against those who risk their money. I suggest that we turn our telescopes and our speeches for foreign consumption around on ourselves. Let's do a little checking up on our own "investment climate" and on our own "underdeveloped areas."

A Joint Committee Suggested

The biggest single boost we could give to the confidence of potential buyers would be to put a responsible committee (representative of the Treasury, of farmers, of industry, of labor and of finance) to work with a joint committee of Congress on the subject of taxation and its effect on capital formation. If this committee were instructed to prepare and present to Congress a Bill designed to encourage rather than discourage equity investment and would press its enactment, we would move a long way toward stimulating the Securities Markets and creating a better "investment climate." Such a program is neither very bold nor very new, but its lack of novelty doesn't detract from its soundness.

If our fullest efforts are devoted to creating widespread knowledge and the confidence to use it in the purchase of stocks, and if the barricades of badly designed taxation were reduced, the final requirement of adequate markets to assure resale would be supplied as one of the incidental results; but more important still, the securities markets would receive that stimulation without which needed equity capital cannot be obtained.

*A talk by Mr. Truslow before forum-dinner of the New York Financial Writers' Association, May 12, 1949.

Gone Fishing!!!

Marcus Goodbody, senior partner of Goodbody & Co., 115 Broadway, New York City, members of the New York Stock Exchange, and Thomas A. Larkin, manager of the trading department of the firm, have left for a two weeks' fishing trip in the Laurentian Mountains of Quebec.

Morton A. Cayne Forms Own Investment Firm

CLEVELAND, OHIO—Morton A. Cayne has opened offices in the Union Commerce Building to engage in the securities business under the firm name of Cayne & Co. Mr. Cayne, who has recently been Vice-President of Cunningham & Co., in the past was a principal of Cayne, Robbins & Co. and Cayne & Co.

Morton A. Cayne

William Hutchings With Hall & Co.

Hall & Co., 70 Pine Street, New York City, dealers in New York municipal bonds, announce the association with them of William P. Hutchings, formerly with the New York office of the Trust Co. of Georgia, and previously with E. H. Rollins & Co. Mr. Hutchings, a graduate of Yale in 1941, served for five years with the Army Air Force as a combat pilot, mainly in the Pacific area, and held the rank of major at the time of his separation from the service.

Reynolds & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

WINSTON-SALEM, N. C.—Sergius Koltz has become associated with Reynolds & Co., Reynolds Building.

Connecticut Brevities

The annual report of **Associated Spring Corporation** lists total net sales for 1948 at $30,459,543, the highest in any peacetime year. Net income was equal to $3.41 per share. During the year construction was completed on the new plant at Forestville and machinery was moved from the Bristol plant without loss of production. The new plant which was in full operation by the year end will improve the efficiency. Two of the older Bristol plants are being vacated and will be sold.

* * *

Hartford-Empire Company has purchased Henry & Wright Manufacturing Company, producer of high-speed automatic machinery for forming and stamping parts, along with other types of automatic machinery. The purchase price of **$1.2 million** included **$500,000 cash** obtained on a bank loan. Mr. Wollmar, President of Hartford-Empire, states that the purchase was made to supplement the manufacturing facilities and to broaden further the field of operations. Frank K. Simmons, President of Henry & Wright, is retiring for reasons of health and Mr. Wollmar has been elected President. No other personnel changes are planned.

* * *

Stockholders of **Kaman Aircraft Corporation** met Saturday, May 14 to act on a recommendation of the directors to increase the authorized capitalization from 210,000 shares of class A non-voting common and 90,000 shares of class B voting stock to 810,000 shares of class A and 100,000 of class B. The additional capital will be used to enable the company to increase its production schedule above the present runs of five helicopters, to purchase additional machinery and raw materials and to build up an inventory of spare parts.

* * *

The reorganization plan of **Connecticut Railway & Lighting**, which was approved by stockholders on April 18, 1949, provides for the separation of the gas and electric properties and the stock of the New York, New Haven & Hartford Railroad Co. from the transportation business by transferring them to a new corporation. The plan also provides for reduction in the par value of the preferred and common from the present $100 per share to $50 and $5, respectively. Stock of the new corporation is expected to be offered to preferred stockholders.

* * *

Norwalk Tire & Rubber Co. is being sued by New York Trust Co., trustee for the company's 4% convertible debentures, due April 15, 1958, for a total of $1,284,031. The suit alleges that the company has failed to pay certain excise taxes, certain creditors "punctually" and failed to provide for its sinking fund obligations which were due April 15, 1949. New York Trust asks that the debentures be declared due and payable. Prior to the suit, a protective committee had been formed to represent the bondholders.

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Southern New England Telephone Co. has been authorized by the Connecticut Public Utilities Commission to issue 2,400,000 shares of $25 par stock in exchange for 600,000 shares of $100 par stock. The four-for-one split became effective May 9.

* * *

Stockholders of **Colt's Manufacturing Co.** have approved a charter amendment to permit the company to enter into a merger or consolidation. The management stated at the annual meeting that it had been approached by other companies regarding possible mergers, but that nothing definite had developed.

* * *

Bridgeport Hydraulic Co. has filed a registration statement with the SEC for 36,000 shares of $20 par common stock to be offered to stockholders. Proceeds would be used to reduce short-term bank loans.

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The Connecticut Public Utilities Commission has authorized **New Haven Gas Light Co.** to issue $1,200,000 first mortgage bonds, which would be sold privately to eight Connecticut savings banks. Proceeds would be used to pay off $400,000 in notes and finance plant expansion.

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Hartford Gas Company has been authorized by the State Public Utilities Commission to increase its rates by 6%. The advance, which went into effect May 1, 1949, is expected to add approximately $279,000 to the company's annual revenues.

* * *

Of the 49,850 shares of 4.30% preferred stock offered by **Scovill Manufacturing Co.** to its common stockholders, 42,739 shares, equal to 85.7%, were subscribed. The remaining shares were purchased by the underwriting group.

Russell M. Dickson Joins Hannaford & Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Russell M. Dickson has become affiliated with Hannaford & Talbot, 519 California Street. Mr. Dickson was formerly with William R. Staats Co. and Walston, Hoffman & Goodwin.

With Waldron & Co.

(Special to THE FINANCIAL CHRONICLE)

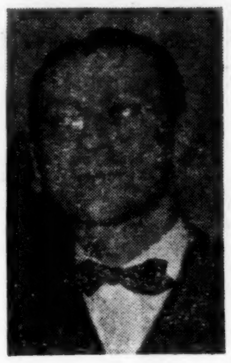
SAN FRANCISCO, CALIF.—William H. Fowler, Jr. has been added to the staff of Waldron & Co., Russ Building.

Legislative Program of Securities And Exchange Commission

By LOUIS LOSS*
Associate General Counsel, Securities and Exchange Commission

Asserting SEC statutes are here to stay, but require amendments "a little piece at a time," SEC's legal counsel reviews proposals for: (1) changing disclosure to investors in securities offerings without hamstringing underwriters and dealers; (2) strengthening the Investment Advisors Act; and (3) extending controls to safeguard investors in unregistered and unlisted securities. Says absence of applying SEC controls over unlisted securities creates disparities, and urges universal application of proxy rules, restrictions on "inside trading" and requirements of adequate corporate financial data.

The general text which was suggested to me when I was invited to talk to you today was "free enterprise" versus a "controlled economy." If the caffein can be taken out of those phrases, I suppose the short answer is that we at the Commission favor both. My firm personal belief — and the basic philosophy of the several statutes administered by the SEC — is that only through a proper measure of regulation will our economic system remain free and healthy. That much we take as dogma. If any one still wants to debate that proposition he may, but not with us.



Louis Loss

The SEC itself is not without its critics. In our scheme of things, no government agency should be. But it seems to be pretty generally agreed that there is no turning back—that the half dozen statutes adopted by successive Congresses in the years 1933 to 1940 are here to stay. Some major legislative action was taken every single year but one during that period. In 1933, after 47 States and most foreign countries of any importance in the financial world had found it necessary to enact so-called "blue-sky legislation" of one kind or another, the Federal Government got around to legislating with respect to "truth in securities." The next year came legislation with respect to the securities markets as distinct from new flotations. The year 1935 brought enactment of the Public Utility Holding Company Act with its much publicized "death sentence" for holding companies—a provision which experience has shown was rather a new lease on life for private power under public control. In the next few years there were amendments to the 1934 Act. In 1938 and 1939, following the Protective Committee Study which had been conducted for the Commission by William O. Douglas, we got first Chapter X of the Bankruptcy Act, with its interesting experiment in cooperation between court and Commission, and then the Trust Indenture Act. Finally, in 1940, as a result of the Commission's Investment Trust Study, a unanimous Congress passed the Investment Company Act and the Investment Advisers Act.

It may not be amiss to point out, particularly to this audience of "the loyal opposition," that these statutes are administered by an independent bipartisan agency, and indeed that in large measure they were prompted and are supported by both sides of the legislative aisle. The investigation of the Senate Banking and Currency Committee which resulted in the 1933 and 1934 Acts had its genesis in a Senate resolution adopted in 1932—although a subsequent resolution of the new Congress did provide a fresh set of teeth with a harder bite. The monumental study of the Federal Trade Commission which produced the Public Utility Holding Company Act of 1935 dates from another Senate resolution adopted in 1928, the year of the twin chickens and the elastic ticker tape. And, to go back even further, the Federal incorporation proposals advocated by Presidents Theodore Roosevelt and Taft make our present-day statutes look mild by comparison.

It would be truly remarkable if a series of statutes adopted in so many different steps and covering so many facets of our financial life were found after 10 or 15 years of experience to the perfectly coordinated, without overlaps or lookholes. And it does not detract from the tremendous effort and skill which went into their drafting to say that they are by no means perfect. In 1941 the Commission undertook to explore the basic Acts of 1933 and 1934 with representative groups of the securities industry with a view to working out areas of agreement and disagreement and presenting a comprehensive amendment program to the Congress. Virtually every provision of both Acts was carefully reviewed and the program got as far as hearings before the Interstate and Foreign Commerce Committee of the House of Representatives in late 1941 and early 1942. But Pearl Harbor raised more important problems and nothing came of that program.

Three Separate Proposals

At the moment there are three legislative proposals in which we are vitally interested. One is essentially a continuation of the program interrupted by the war, except that it is our present plan to bite off a little piece at a time rather than to attempt wholesale review of the 1933 and 1934 Acts. Our most immediate concern in this regard is to find a statutory formula which will make for the highest degree of real disclosure to investors in the offering of securities without at the same time hamstringing underwriters and dealers during the period between filing and effectiveness of the Securities Act registration statement. The problems presented by that dual aim are formidable and we are not yet certain that we see their solution, but we believe we are making progress.

Our second set of proposals concerns the Investment Advisers Act of 1940. It has now been four years since we sent to Congress a report on two major cases of embezzlement of clients' securities and funds by investment advisers, together with recommendations for amending the Investment Advisers Act in order to subject registered advisers to the same inspection powers now applicable to registered brokers and dealers.

What I want to talk about today is a third proposal—first submitted by the Commission to Congress in 1946 in a report entitled "Proposal to Safeguard Investors in Unregistered Securities." That proposal is intended to eliminate a double standard of investor protection which has resulted, more by accident than by design, from the piecemeal adoption of the several statutes now on the books. Our proposal, in a nutshell, is to amend the Securities Exchange Act of 1934 by extending the registration, reporting, proxy and insider-trading provisions of that Act to securities of unregistered corporations having at least $3,000,000 of assets and 300 security-holders. These safeguards have been applied to various categories of companies step by step. There remains a fortuitous but important residuum. At the risk of getting a bit technical, I shall try to explain how this came about and why it is vital that the job begun 16 years ago should now be finished. If in the telling of this story a moral is drawn about the application of orthodox *laissez-faire* principles in this field, you may consider it not altogether accidental.

In 1933 Congress subjected most new offerings of securities to the light of full disclosure. Under that Act alone, of course, a company can continue to operate in the dark so long as it manages to avoid going to the public market place for its financing. In 1934 similar disclosure requirements were extended to all companies desiring to list their securities on an Exchange. The 1934 Act, in addition to making registration a condition of Exchange listing, provided also for annual and other reports to keep the information up to date; and in a 1936 amendment similar reporting requirements were made applicable to future registrants of substantial size offering securities under the Securities Act of 1933 regardless of whether or not they chose to list on an Exchange.

The 1934 Act also introduced two other provisions. One assures holders of listed securities of essential information when their proxies are solicited. The other is designed to protect security-holders against trading abuses by corporate insiders — that is, officers, directors, and principal stockholders. Such insiders must promptly report any trading in which they engage; they are forbidden to sell short; and their short-term trading profits, resulting from going in and out of the market within a period of six months, are automatically recoverable by the corporation without the necessity of proving any abuse of inside information in the particular case.

In the Public Utility Holding Company Act of 1935 Congress applied much the same reporting, proxy and insider-trading provisions to registered holding companies and their subsidiaries. And in the Investment Company Act of 1940 it followed suit with respect to registered investment companies, thus bringing still another category of companies under the umbrella.

The situation today, therefore, is that, if you happen to be a stockholder of a listed company or a public utility holding company or a subsidiary of such a company or an investment company, you have access to current financial statements and other information about the company, you are assured of certain information and rights when your proxy is solicited, and you are protected against the use of corporate information by insiders for their

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*An address by Mr. Loss before the New York Young Republican Club, New York City, April 28, 1949.

Boosting Federal Expenditures Now and Later

By HON. HARRY F. BYRD*
U. S. Senator from Virginia

Senator Byrd, commenting on the ever increasing Federal expenditures, contends trend will continue, because budget commits government to stupendous future outlays, from which it cannot renege. Says all social programs, as well as Federal subsidies and public works undertakings, mean unavoidable heavier future government costs. Warns, if business suffers slump, Federal deficits will result, since nation cannot bear higher taxes. Urges unifying all Congressional appropriations in one bill.

The Federal budget of the United States is a tremendous thing. It is tremendous in its effect on the course of world events. It is tremendous in its effect on the freedom of thought and action of individuals at home—whether they are businessmen, union members, farmers, or GI students. It is tremendous in terms of taxes it siphons from our pocketbooks through the revenue side, and it is tremendous in terms of money it pours out through gigantic bureaucracy on the spending side. It covers thousands of items of 130 thousand square inches of printed material. And, frequently, the more significant language is in extremely fine type.

Harry F. Byrd

To analyze the budget is a laborious task. I know some of our sessions in this meeting have been devoted to discussion of well-informed conclusions based on the U. S. Chamber staff analysis. I shall not burden you with my own analysis. But there is one phase of the Federal budget of steadily growing importance to which I should like to invite your attention, and your best thought and judgment. It is this: Analysis of all recent Federal budgets reveals that every year more and more Federal expenditures are being tied to LONG-TERM COMMITMENTS on which no responsible government can renege—no matter what the condition of the Treasury may be. All social programs fall into this long-term commitment category if they are sincerely conceived. The same is true of veterans' programs.

Our agriculture subsidy program has developed into a permanent commitment. Huge public works projects require capital outlay expenditures over a period of years and, in addition, increased maintenance and operation costs are permanent. Once a State grant-in-aid program is inaugurated, it cannot be disturbed without upsetting 48 State budgets. Most major defense projects require expenditure commitment for more than one year. We even tie foreign relief and aid to five-year programs. Every time we indulge in deficit spending we assume long-term debt financing.

Reducing public expenditures is always difficult. But reducing public expenditures when they involve the integrity of the government—in the form of promises to pay—is something more than just difficult. Some of these promises to pay—such as public works construction and production of military equipment—are actually in the form of contracts. Others—such as grants-in-aid and veterans' payments—are moral obligations.

Major Categories of 1950 Budget

The extent of these long-term promises to pay may be seen by a quick run-down of the major categories in the pending budget for fiscal year 1950 beginning in July; and bear in mind the figures I shall give you first do not include payroll and administrative costs. They are merely payments which the government is legally and morally bound to make next year.

First there are payments to be made on what I choose to call long-term domestic civilian commitments. These include:

(1) Interest on the debt which will run to nearly $5½ billion.

(2) Veterans' pensions, adjustment aids and hospitalization (exclusive of construction) which will run to approximately $5 billion.

(3) Federal contributions to retirement funds, including expenditures for railroad retirement—but exclusive of military retirement and social security payments, $1 billion.

(4) Direct Federal public works, including veterans' construction, but excluding Federal aid projects, which will run to nearly $2½ billion.

(5) Grants-in-aid and shared revenue programs, including Federalized education, $2½ billion.

These five items total more than $16 billion in fixed costs virtually impossible of reduction at any point except the remote possibility that Federalized education might be rejected.

In addition to these domestic civilian commitments, there are others which fluctuate widely from year to year, such as:

(1) Agriculture subsidies
(2) Business subsidies
(3) Merchant Marine subsidies
(4) Losses by Federal Corporations
(5) Postal deficits, etc.

Assuming the Brannan plan will not be adopted, and that the present agriculture subsidy formula will be continued, the cost of these additional long-term domestic civilian commitments in fiscal year 1950 may be estimated at considerably more than $1½ billion.

Thus, exclusive of:

(1) Payroll costs; (2) administrative costs; (3) foreign economic aid costs; (4) foreign military aid costs; (5) our own military establishment costs, and exclusive of (6) payments from Social Security trust funds, we are obligated—by long-term domestic civilian commitments—to annual Federal expenditures running to $18 billion or more.

Illustration of Housing Program

The Housing Program recently adopted by the Senate is a good example by which to demonstrate how these long-term commitments build up from a relatively minor item in the budget for the first year. In his January budget message the President estimated that 1950 expenditures for the new housing legislation he proposed would total slightly more than $200 million. Yet, under the low-rent subsidy feature alone, the Federal Government will enter into 40-year contracts with localities under which the Federal expenditures of the future will range up to nearly a half-billion dollars a year. Depending how sound the loans are under other features of the proposal, this program may ultimately cost the Federal Government $20 billion. Actually there were some 40 expenditure items in the President's original budget recommendations which required new substantive legislation. If approved, these items in 1950 would cost about $2 billion. But in terms of long-term commitments, it was a multi-billion-dollar program.

The Housing Program was an example of one type long-term authorization.

Another type is illustrated by the recommendation to authorize United States participation in construction of the proposed St. Lawrence Seaway. This is in the 1950 budget for a mere $8 million, but the ultimate cost to the United States—for construction alone—is estimated at more than a half-billion dollars.

Still another type of commitment from which there is no return is illustrated by the pending proposal for Federal aid to elementary and secondary education. This item is in the 1950 expenditure budget for $290 million to augment (or subsidize) teachers' pay. In the opinion of many this may be a very meritorious proposal. But will it stop here; or is it just the beginning for Federal aid to other phases of the educational system in years to come? And in this connection there is in the 1950 budget $1 million for "survey of educational building needs, and study of scholarships and fellowships." This direct Federal aid to education will open the pandora box.

These examples of tiny acorns from which big spending oaks grow which I have cited to this point all affect the general fund budget, the cost of which is met largely by straight Federal taxes on personal and corporate income, and by excise taxes on things and services we buy.

Socialized Medicine Program

But there is still another type of Federal commitment which operates outside the general fund budget—but it costs money just the same and it requires another Federal levy. In the pending budget this type of long-term commitment is illustrated by the proposed socialized medicine program. In this case the program is compulsory and part of the costs are supposed to be paid from an additional Federal levy in payroll taxes which would go into a trust fund and be financed to some extent outside the general fund budget. Estimates on this program run as high as $10 billion a year. It is disposed of in the 1950 budget with the recommendation for a levy totaling $260 million in payroll taxes to finance the program through the trust fund technique outside the regular budget. But it must be understood that once employees (and employers) contribute through payroll taxes to this program, the Federal Government is committed to make good its promise to provide adequate medical care and service—for whatever it may cost.

The proposed military alliance is in the nature of an indefinite commitment to rearm North Atlantic Pact nations for which no expiration date has been fixed. Under pressure the State Department has made an estimate of something over a billion dollars for the first year. But even this would appear to be low inasmuch as the program involves giving away reserve military stock, heavy transportation costs, and highly expensive replacement of equipment and material for our own military services.

The most horrible example of long-term commitments would be the adoption of the so-called Brannan Agriculture Plan by which the Federal Government would underwrite a producer-distributor-consumer utopia. The author of the plan admits the cost of the plan cannot be estimated.

These are only examples of scores of Federal programs by which the Federal Government is—or would be—committed to huge continuing expenditures under long-term contracts or moral obligations.

I have invited your attention to them for four reasons:

The first reason is to show why it is virtually impossible to reduce Federal expenditures substantially insofar as they implement vast programs, projects and policies already authorized.

The second reason is to cite chapter and verse evidence on which I base my contention that the place to cut Federal expenditures is at the inception of the program involved. It is too much to expect that appropriations will be withheld from programs, projects and policies already authorized in previous substantive legislation.

The third reason is to enlist

(Continued on page 42)

*An address by Senator Byrd at a luncheon session of the 37th Annual Meeting of the Chamber of Commerce of the United States, Washington, D. C., May 4, 1949.

Michigan Brevities

The Detroit Stock Exchange reports that trading volume in April was 224,229 shares, having a dollar volume of $3,096,965. This compares with March trading of 272,914 shares with a dollar value of $3,376,662, and with 213,597 shares, having a dollar value of $2,805,213, which changed hands in February.

The 10 most active traders during April were: Detroit Edison Co., McClanahan Oil Co., Goebel Brewing Co., Gerity - Michigan Corp., Commonwealth & Southern Corp., Warner Aircraft Corp., Wayne Screw Products Co., United Corp., Scotten, Dillon Co., and General Motors Corp.

Trading in Rudy Manufacturing Co. stock on the Detroit Stock Exchange commenced May 11, at which time registration of 201,041 shares of its common stock became effective. The company, formerly known as Rudy Furnace Co., manufactures residential furnaces, water heaters, refrigeration condensers and a diversity of products. It has 250,000 shares of $1 par common stock authorized. Manufacturers National Bank, Detroit, is transfer agent.

* * *

Charles E. Bailey & Co., Detroit, on May 9 publicly offered 125,000 shares of common stock of H. D. Smith Manufacturing Corp., Roseville, at par ($2 per share), the net proceeds to be used to pay current liabilities and for additional working capital. The Smith firm's present products include metal mouldings and trim for household and industrial uses, bicycle fenders and braces, and bicycle roller chains. They are manufactured on an automatic machine under an exclusive license agreement.

* * *

The directors of Dow Chemical Co., Midland, on May 3 declared a dividend of 40 cents per share on the common stock, payable July 15 to holders of record July 1. Previously, distributions of 25 cents per share were made each quarter, and, in addition, a 2½% stock dividend was paid on Dec. 15, last year.

The unaudited consolidated net income of The Dow Chemical Co., Midland, for the nine months ended Feb. 28, 1949, was $21,393,730 which, after providing for dividend on both classes of preferred stock, was equivalent to $3.81 per share on the common stock outstanding at the close of the period. The net income was arrived at after deducting $13,580,257 for estimated Federal and Canadian income taxes. Dividends amounting to $750,000 were received from an associated company during the nine months' period.

* * *

Baker, Simonds & Co., Detroit, on April 22 publicly offered 150,000 shares of Plywood, Inc. common stock (par $1) at $2.75 per share, the net proceeds of which will be used for additional working capital to finance inventories and operations of Plywood's expanded business and for other corporate purposes.

* * *

The Dec. 1, 1948 interest coupon on the 3%-4½% bonds due 1979 of Wolverine Power Corp., Bay City, will be paid at any time. The directors, however, found it necessary to defer payment on the coupon due June 1, 1949.

* * *

First of Michigan Corp. and Watling, Lerchen & Co. on May 4, participated, together with a group of approximately 200 underwriters, in the public offering at $26.75 per share and dividends of an issue of 1,500,000 shares of Pacific Gas & Electric Co. 5% redeemable first preferred stock, series A (par $25).

* * *

A letter of notification was filed on May 2 with the Securities and Exchange Commission covering 22,654 shares of 6% cumulative convertible preferred stock (par $10) and 135,924 shares of common stock (par $1) of Pioneer Finance Co., 901 National Bank Bldg., Detroit. The net proceeds are to be used for additional working capital. The common stock will be held for conversion on a basis of six shares for each preferred share.

* * *

Included in the group of underwriters who on April 26 publicly offered $40,000,000 National Distillers Products Corp. 25-year 3⅝% sinking fund debentures due April 1, 1974, at 101.31% and accrued interest, were Watling, Lerchen & Co., First of Michigan Corp. and Miller, Kenower & Co.

* * *

Net sales of Detroit-Michigan Stove Co. for the three months ended March 31, 1949 amounted to $2,234,773, compared with $6,054,264 for the corresponding period of last year. Net profit for the 1949 period after Federal income taxes was $55,204, or 5 cents per common share, against $648,344, or 67 cents per share for the quarter ended March 31, 1948.

* * *

E. H. Schneider & Co., Kalamazoo, was included in the group of investment bankers who on April 21 publicly offered 70,000 shares of Merck & Co., Inc. $4 cumulative convertible second preferred stock, without par value, at $102.75 per share and accrued dividends.

* * *

The charter of Trenton Chemical Co., Detroit, was amended on March 1 to increase its authorized common stock, par $1, from 1,250,000 shares to 1,450,000 shares; to reduce the authorized preference common stock, par $1, from 250,000 shares to 200,000 shares; and change the conversion rate of the 6% cumulative convertible class B preference common stock, par $2, to two common shares for each class B share from one common share for each class B share, and to change the redemption price, but not the liquidation price, from $2.25 to $2.40 per share.

After giving effect to the proposed sale of 131,841 shares of class B preference common stock registered with the SEC on March 30, there will be outstanding 882,063 shares of common stock, 192,937 shares of preference common stock (par $1) and 175,000 shares of 6% class B preference stock (par $2). It is expected that Carr & Co., Detroit, together with Straus & Blosser of Chicago and Lester & Co. of Los Angeles will publicly offer the 131,841 class B shares, the net proceeds to be used to pay for expansion, etc.

With W. H. Heagerty & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—Joseph R. Healy has been added to the staff of W. H. Heagerty & Co., Florida Theatre Building.

LETTER TO EDITOR:

Seasoned Stocks Best Purchase, Says Edwin J. Schlesinger

Investment Counsel reveals conclusions drawn from study of common stock fluctuations from January 1928 through July 1937.

Editor, Commercial and Financial Chronicle:

Shortly after the big break in the stock market in August 1937, a study was started by me of the course of common stock prices from January 1928 up to the present. The object was to see whether high grade common stocks made a better showing than the speculative variety.

Edwin J. Schlesinger

The threat of war during 1941, in turn followed by the war, interrupted this study and it was not resumed until the beginning of 1946. This was considered necessary since an inordinate amount of unusual factors were brought into the general situation.

Among the more important factors influencing the situation during the period covered by the study may be numbered the following:

(1) The degree of confusion in the market.

(2) The type of propaganda fed to the investing public.

(3) The length of time during which the various classes of stocks were popular.

(4) The law of supply and demand.

(5) Dollar volume contrasted with unit sales.

(6) The cost of doing business and the degree with which any decline in volume affected the net profits.

(7) The purchasing power of the dollar.

(8) The making of appropriate allowances for the waves of inflation and deflation in the national economy.

(9) The effect of pegged interest rates.

(10) The size of the national debt.

(11) The increase in the nation's population.

(12) The amount of money in circulation.

(13) The personal income.

(14) The world-wide demand for American goods.

(15) The influence of Russia.

(16) The scarcity of merchandise.

(17) The filling of the pipelines.

The study, which has now been completed, reveals that seasoned common stocks, if purchased at the right prices, give a much better account of themselves over the years than the speculative variety. However, it should be pointed out, that some students of the subject differ with these conclusions. They maintain that common stocks, regardless of quality, move pretty much in unison. While it is true that they move together in the same general direction, many of the low-grade common stocks, when once in a slump, never approach their former prices. In fact, under certain conditions, many weaker common stocks fade completely out of the picture.

EDWIN J. SCHLESINGER.
41 East 42nd Street,
New York 17, N. Y.
May 16, 1949.

The Business Outlook And Bank Investments

(Continued from page 7)

fear that prices will soon be higher, so in a period of declining prices people hold back because they anticipate lower prices and better quality. Moreover, in a tight labor market where the employee knows he can readily find a job, there is a tendency to spend freely. Once a moderate degree of unemployment sets in, however, even those still on the job become more careful in their spending habits because of the fear they also may find themselves out of work.

Bank operations clearly reflect the readjustment in business and employment. The volume of commercial and agricultural loans of the reporting members banks decreased from $15.6 billion at the end of 1948 to $14.3 billion on April 20, 1949, a rather substantial decline. This reduction in loans reflected primarily the liquidation of inventories, and also in part at least a more cautious attitude on the part of the banks. The decline in loans was accompanied by a lengthening in the maturities of investments of commercial banks and by a tendency for high-grade bonds to increase in price and for money rates to soften.

Now comes the more difficult task of inquiring where we go from here and how the business pattern will affect the investments of the commercial banks. As conditions are at present, a sharp break in business activity or a serious deflation is not likely to take place. While the readjustment will continue to roll and many business men will continue to complain about reduced sales and profits, in general business will remain at a high level and employment will be satisfactory. This conclusion is based on the following considerations.

A further break in farm prices in the immediate future cannot occur so long as the present legislation is on the statute books and the government is under obligation to maintain farm prices at a certain level. Therefore, while farm income during the next twelve months will be lower than during 1948, it is bound to remain at a high level.

Construction is also being maintained at a high point. While the building of private homes has decreased, the construction of public works and public housing has increased. It may be expected that a housing bill will be passed by Congress, which should set in motion large-scale construction of multiple-dwelling buildings in the larger cities. The construction industry is an important one and creates a large demand for raw materials and labor. It would be a very favorable development for the country if the cost of construction were to decrease. A decline of anywhere from 15 to 20% would again stimulate private construction for a number of years and contribute materially to the country's economic welfare.

So long as the European Recovery Program lasts, a sharp break in exports cannot take place. It is quite possible, however, that during the current year there will be a change in the type of exports. The Europeans will request less farm products and more machinery and equipment. Military expenditures during the next fiscal year will probably aggregate over $15 billion, and this too will provide a stimulus to the economy.

If to these factors one adds the still strong current demand for commodities and the fact that a decline in the cost of living increases the real income of those who are employed, one must reach the conclusion that, on the whole, business activity will remain at a high level. It should be noted, however, that the readjustment is not yet over, that the decline in prices has not yet come to an end, that the number of failures is bound to increase, and that there is a likelihood of still larger unemployment than at present.

This is a short-range outlook. What will happen in the more distant future, when capital expenditures by corporations may decrease materially, when the ERP will be terminated and competition from Europe will increase, and when, as we all hope, an improvement in the international political situation will make possible a substantial reduction in military expenditures is another matter. What will happen then will to a large extent depend on what we do in the immediate future. Just as the present painful process of readjustment is the result of the inflationary orgy in which we indulged from V-J Day up to the end of 1948, so the situation in 1951 and therafter will depend largely on how we handle our economic and political affairs in the period immediately ahead.

We must learn that our taxation system should be coordinated to business activity and should take into account the need for new capital formation, since capital expenditures by business is one of the important factors in the economic picture. We must learn that the government cannot hand out billions of dollars without considering where the money will come from or how taxes may affect business conditions and individual initiative. We must learn how to solve our agricultural problems without the need for the Government to guarantee an important segment of the population a high income for the indefinite future.

Above all, we must learn that the best answer the United States can make to those who attack our way of life and our economic system is to demonstrate that our system not only guarantees the individual all the liberties for which mankind fought and died for many centuries, but also is capable of giving the people the highest standard of living possible and at the same time eliminating big swings in the business cycle. Once we have demonstrated that predictions of a pending collapse of the economy are not based on fact but on wishful thinking, the Cold War will come to an end and attacks on our system and our way of life will abate.

The Approach to Investment Policy

The changed economic situation has an important bearing on the investment policies of the banks, and now is the time for the banks to lay down a sound investment policy. The investment policy of a bank should be based on an analysis of (a) its deposits, (b) its capital resources, and (c) its assets. It should aim toward a satisfactory return, an ample margin of safety, and a high degree of liquidity. Investments based only on earnings may cause the institution grief. An investment program based only on liquidity, unless the volume and type of loans make such a policy imperative, neglects one of the important functions for which a bank has been established. The investment policy of a bank must take into account the entire assets structure of the institution; it cannot be dissociated from the

loan portfolio. Where the element of risk in loans is rather great, this must be counteracted by an utter lack of risk in the investment sector of the portfolio.

The investment policy of a bank must also take into account the ratio of capital to risk assets. This is essential. It is also advisable to consider the ratio of capital to total deposits because many large depositors pay attention to this factor. Finally, the investment policy of a bank should be adapted to the facilities of the bank, to the management of the bank, and also to attitude of the Board of Trustees.

The Composition of Deposits

The first element to consider is the composition of deposits. I consider savings deposits separately from demand deposits. Although savings deposits are not always more steady than demand deposits, I consider them separately because a bank has to pay interest on savings deposits and must therefore endeavor to earn this interest cost. Demand deposits, on the other hand, aside from the assessment of the FDIC do not cost the bank any money.

In considering savings deposits, a careful analysis should be made of the trend of these deposits. In my opinion, the trend of savings deposits is influenced to an important extent by the cost of living. In addition, many people, I believe, are somewhat uncertain of the future and this in turn leads to greater savings. There are, however, indications in certain parts of the country, particularly in New York City, that there is a shift of savings deposits from commercial banks to savings banks, primarily because of the fact that the latter institutions pay a higher rate of dividends. Personally, I do not believe that a commercial bank can compete with a savings bank on the basis of the rate of interest. I may be wrong. I do, however, believe that the commercial bank is in a position to compete as far as service is concerned.

How should savings deposits be invested? Broadly speaking, as a general proposition, up to 60% of the savings deposits of a commercial bank can be invested in long-term assets, depending on the ratio of capital to risk assets. Most of these long-term assets should consist of mortgages, term loans and government obligations. Only a relatively small proportion should be invested in corporate bonds and tax-exempt securities of high quality.

In considering tax-exempts, the fact should be borne in mind that they are not as liquid as Government obligations. The return on tax-exempts and other obligations should be large enough to make up for the inferior marketability and for the greater risks.

Where a bank has few mortgages, it can hold a larger percentage than 60% of savings deposits in long-term assets, particularly if these assets consist almost exclusively of Government securities. To take an extreme case, where a bank has no mortgages and no corporate or tax-exempt securities, in my opinion that particular institution can invest up to about 75% of its savings deposits in long-term Government obligations.

The remaining 40% of the savings deposits could be invested as follows: 10% in cash or very short-term Government obligations and the remaining 90% in a well-balanced list of Government securities and other high quality issues due or callable within 10 years. The percentage in the shorter or longer maturities will depend on the composition of the 60% of the assets described above. Where a bank has only few mortgages or none, where the maturities are already diversified, I believe a bank can lean more towards the 10-year maturity and less toward the 2- or 3-year maturities.

I have spoken about risk assets. It is therefore necessary to analyze what a risk asset is.

To my knowledge, no adequate definition of the nature of a risk asset has been given by any supervising authority. The usual practice in computing risk assets is to take total assets and deduct cash and government securities. To my way of thinking, FHA insured mortgages and high quality corporate and municipal securities due within a year — in certain instances, 2 years, if the credit is particularly high—should be deducted as well. In my opinion at the present time the obligations of the International Bank for Reconstruction and Development can also be deducted if they are on the books at par or lower. I mention this because at present these bonds rest entirely on the good faith and credit of the United States Government.

What the ratio of capital to risk assets should be is not easy to determine and will depend on the nature of the risk assets. We know, for example, that there are some loans such as life insurance loans and loans to brokers and dealers secured by government securities and other high-grade collateral, which can be considered riskless. I believe, and I say may be wrong, that a ratio of 1 to 4 or 1 to 5 is a satisfactory ratio. If the risk assets are of high quality, it may be 1 to 6 or even 1 to 8.

Investing Demand Deposits

Now let us turn to demand deposits. The investment of the demand deposits should be guided by the following considerations:

(1) The composition of all other assets, notably the amount and character of the loans.

(2) The location of the bank, whether in a large financial center or in a small community.

(3) The type of deposits, whether concentrated in a relatively few large accounts embracing a few industries, or widely scattered.

(4) The volume of inter-bank deposits.

(5) The possible swing in deposits within a short period of time.

(6) The capital position of the bank and the relationship of capital accounts to deposits and to risk assets.

These factors should be carefully analyzed by the bank in formulating its policies for the investment of its demand deposits.

The principal aims of an investment policy should be:

(1) To maintain an adequate degree of market stability to protect the bank's safety position.

(2) To have sufficient liquidity to meet the requirements of the depositors and customers. A bank should never be in a position where it has to sell medium- or long-term bonds in order to meet its liquidity requirements.

(3) To obtain satisfactory earnings not only to meet operating expenses and to pay dividends but also to set aside a reasonable amount to increase capital resources.

Average maturity is sometimes cited as a test of investment policy. This, to me is not a good test. The average maturity that is satisfactory for one bank may not be satisfactory for another. A bank which has a large volume of loans outstanding can afford to have a much shorter maturity. A bank which has only limited opportunities for making loans can well afford to have a longer maturity.

The first consideration is to ascertain the liquidity requirements. This can be ascertained by analyzing the type of deposits and what future fluctuations in deposits may be and by estimating how large the volume of loans may be.

Having made adequate provision for that portion of the demand deposits which should be kept in assets readily convertible into cash, how about the rest? The answer, in my opinion, will depend in part on the size of the loan portfolio whether large or small in relation to deposits, and on the type of loans, that is to say, whether the bank has a large volume of term loans or mostly self-liquidating commercial loans. It will also depend on the earnings position of the bank, whether the bank depends largely on loans or on its investments for earnings. For example, there are some banks in the country loaned up to 50% to 60% of their deposits. Obviously these banks derive their principal income from loans. They are not as dependent on income from investments as banks which are loaned only up to 25% or 30% of their total deposits, or even less.

After a banker has made analysis of the above factors, he can choose between two principles in investing the balance of his demand deposits. He can either adopt a policy of spacing his maturities fairly evenly over some given period of years, or he can adopt a policy of investing to obtain a certain return, which usually means some concentration in medium- and longer-term issues.

A spaced maturity policy is particularly advisable where a bank has a good income from its loans and is less dependent on investments for its income. It is also advisable for a bank which is located in a large financial center where the swings in its deposits can be great. The second approach is suitable for banks which rely primarily on investments for income.

What types of securities should a bank buy? In my opinion, banks should invest only in high-grade obligations, irrespective of the attitude of the bank supervising authorities. A bank operates with other people's money and should invest it in high-grade obligations. A portion of the bank's own resources may, under certain conditions, be invested in bonds a shade below the high-grade character.

In my opinion, banks should not buy obligations with a maturity of more than 25 years. Where a bank is too small to support a good statistical department it should hold only securities which are riskless in character. A bank should not buy tax-exempt securities except when they yield more than the net income after taxes obtainable from government obligations of comparable maturity. Government securities are highly marketable and they are protected. Tax-exempt securities, as a general rule, are not highly marketable, nor are they protected. I also believe that there should be a definite spread between the yields on corporate bonds and yields on governments of the same maturity. Convertible bonds should be bought only where they can stand on their own feet on the basis of quality and yield and where the price is not dependent primarily on the conversion feature.

The question has been asked about partially tax-exempt securities which are selling at a premium. Premium, in my opinion, is not of any real importance because of the amortization. A bank should buy its securities on the basis of yield, not premium. It is, however, quite evident that the premium account should have a reasonable relationship to the capital resources of the institution. Otherwise, it may cause mental anguish to the officer himself as well as to the directors. Generally speaking, however, in buying a bond, a bank should consider the quality, the maturity and the yield, and not the premium.

Fully tax-exempt securities are suitable investments for banks. A bank is often in a favorable position to buy local tax-exempt securities because it knows the local credit conditions. It also has a responsibility to assist the community where it is located, provided the credit factor is there.

To sum up, the forces of inflation are now receding and we are returning to a more normal pattern of business. I believe the time is ripe, therefore, for commercial bankers to sit down and analyze their positions as carefully as possible and to lay down sound investment policies which they will be able to follow so long as conditions remain more or less normal.

Bank and Insurance Stocks

By H. E. JOHNSON

This Week—Insurance Stocks

As the data for determining the consolidated earnings and operating record of the various fire and casualty companies are now available, several of the large investment firms specializing in these securities have issued comparisons and analyses of last year's results.

The Bank & Insurance Stock Department of Laird, Bissell & Meeds, one of the large brokerage houses, have prepared such an analysis of 40 fire companies and 13 casualty companies. It is fairly detailed and presents comparable figures covering the operating results of the past two years.

Because of the number of companies covered in the tabulation by this firm, only figures for some of the larger and better known fire insurance companies have been taken from this study and are presented in the following comparison.

In addition to the operating results for 1947 and 1948 the table also shows per share figures covering adjusted underwriting, investment income, Federal taxes and net earnings.

	Adjust. Undwrtg. Gain or Loss		Investment —Income—		Federal —Taxes—		Net Earnings	
	1947	1948	1947	1948	1947	1948	1947	1948
	$	$	$	$	$	$	$	$
Aetna Fire	—0.83	6.28	2.93	3.42	0.03	—1.10	2.13	8.60
Agricultural	—10.00	8.79	5.44	5.21	0.04	—5.55	—4.52	8.45
American Insur. (Newark)	—0.19	1.46	1.03	1.27	—0.02	—0.37	0.82	2.36
*Boston Insurance	0.43	4.00	3.54	3.19	---	—0.11	3.97	7.08
Continental Insurance	2.17	4.47	3.61	4.13	—0.28	—1.14	5.50	7.46
Federal Insurance	4.31	6.70	2.28	2.53	—1.31	—2.51	5.28	6.72
Fidelity-Phenix	1.91	5.00	4.18	4.64	—0.23	—1.20	5.86	8.44
Fire Association	0.94	7.63	4.63	4.67	—0.15	—1.98	5.42	10.32
*Fireman's Fund	3.13	8.03	4.63	4.17	0.35	—1.62	8.11	10.58
Fireman's Insur. (Newark)	0.89	2.77	1.43	1.72	0.02	—0.19	2.34	4.30
Glens Falls	2.22	4.77	2.25	2.50	—0.03	—1.76	4.44	5.51
Great American	0.75	2.71	2.13	2.43	0.01	—0.54	2.89	4.60
Hanover Fire	—0.68	2.86	2.23	2.28	—0.01	—0.59	1.54	4.55
Hartford Fire	7.14	20.90	5.40	6.09	—0.67	—5.60	11.87	21.39
†Home Insurance	1.84	2.29	1.97	2.15	—0.33	—1.34	3.48	3.10
Insurance Co. of No. Amer.	1.25	9.12	6.21	7.07	0.25	—2.53	7.71	13.66
National Fire	—5.93	6.23	3.79	3.77	---	—0.20	—2.14	9.80
New Hampshire	—1.16	2.20	2.89	3.23	—0.01	—0.59	1.72	4.84
New York Fire	0.06	1.16	1.67	1.79	—0.02	—0.50	1.71	2.45
Phoenix Insurance	1.54	5.25	4.61	4.97	—0.12	—0.95	6.03	9.27
Providence-Washington	—0.09	2.11	1.80	2.22	---	0.24	1.71	4.57
St. Paul Fire & Marine	5.59	9.81	3.80	4.40	—0.32	—2.69	9.07	11.52
Security Insurance	—1.55	6.79	2.52	2.45	0.42	—1.47	1.39	7.77
Springfield Fire & Marine	0.35	3.84	2.20	2.55	---	—0.82	2.55	5.57
United States Fire	0.78	3.99	3.27	3.43	—0.07	—1.16	3.98	6.26

*Adjusted to give effect to capital change in August, 1948. †Data of two years not comparable because of merger of nine affiliates into Home.

As a part of the same tabulation by the firm, certain figures relating to liquidating values at the end of 1947 and 1948, dividend rates, current prices, approximate yields and the 1948 price ranges are included.

These same figures for the above companies taken from the study are shown below. The current price has been brought up to date and the yield computed on the basis of the current price.

	Liquid. Value December 31,		Dividend	Approximate		Price Range —1948—	
	1947	1948	Rate	Price 5-16-49	Yield %	High	Low
Aetna Fire	$65.14	$71.91	$1.80	$54¾	3.29	$49¾	$41¼
Agricultural	97.93	102.64	3.00	60	5.00	67	51
American Insurance (Newark)	22.48	23.83	0.70	17⅜	4.03	18¼	15⅛
Boston Insurance	81.98	76.30	2.40	66	3.64	*72	*54
Continental Insurance	67.91	72.85	2.20	61½	3.58	63⅞	48½
Federal Insurance	70.22	74.23	1.85	61½	3.01	61	47½
Fidelity-Phenix	75.46	81.03	2.40	67½	3.56	69	53½
Fire Association	84.93	92.02	2.50	61	4.10	61	45
Fireman's Fund	86.17	89.05	†2.90	78½	3.31	*83	*65
Fireman's Insurance (Newark)	21.30	24.50	0.50	16⅜	3.05	15⅝	11⅜
Glens Falls	52.58	55.92	2.00	49¼	4.06	49	40½
Great American	43.69	46.36	1.30	31¼	4.16	33	26⅜
Hanover Fire	41.40	43.22	1.40	31	4.52	32½	24¼
Hartford Fire	137.89	156.56	2.50	125½	1.99	122½	100¼
Home Insurance	37.91	38.46	1.30	29	4.48	30¼	23¾
Insurance Co. of North America	109.24	118.36	3.50	105¼	3.33	109½	92
National Fire	84.74	90.58	2.00	53½	3.74	50½	41¼
New Hampshire	49.85	51.92	2.00	42½	4.71	45	40
New York Fire	27.99	28.95	0.80	15	5.33	14¾	10⅝
Phoenix Insurance	114.86	121.48	3.00	84½	3.55	90½	73½
Providence-Washington	45.72	48.23	1.40	33½	4.18	35¾	30½
St. Paul Fire & Marine	75.70	85.18	2.25	82	2.74	81	66½
Security Insurance	47.75	53.54	1.40	33¾	4.15	32	23½
Springfield Fire & Marine	55.69	59.35	1.90	44	4.32	47	40
United States Fire	74.15	78.10	2.40	59	4.07	60½	46

*On new stock. †Stock on regular $2.60 annual basis, on which yield is calculated. The $2.90 includes payments on old stock in 1948.

These comparisons are useful in several ways. They provide a ready reference of certain important statistics on individual companies. Also, they make it relatively easy to compare the results of a particular company in which a person might be interested with other companies in the same industry. In addition they provide an opportunity to compare on a statistical basis the relative attractiveness of various issues.

While they should not take the place of detailed investigation and reviews of the long-term records of insurance companies, they are useful in supplementing such investigations and comparing the statistical position of individual companies.

J. Rosenthal Opens

(Special to THE FINANCIAL CHRONICLE)

DENVER COLO. — Joe Rosenthal is engaging in a securities business from offices at 1269 Logan Street.

With E. T. Andrews Co.

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—Elmer C. Burgdorf has joined the staff of E. T. Andrews & Co., 49 Pearl Street, members of the Boston and Chicago Stock Exchanges.

With Income Funds

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—John E. Hotchkiss, Jr. has been added to the staff of Income Funds, 152 Temple Street.

Mutual Funds

By HENRY HUNT

Excessive Legal Zeal

We recently ran across the following sentence in a sales folder of a leading sponsor, "Mutual funds offer an opportunity to share in the profits (if any) of American business." The "if any" was obviously inserted (and insisted upon) by the sponsor's legal counsel. This type of excessive legal zeal, caused by fear of the SEC, strikes us as being both unfair and unnecessary. In the first place, the "if any" implies that one of these days American industry as a whole may operate at a loss, a most unlikely occurrence. In the second place, it suggests that the mutual fund described might eventually be forced to pass its dividend, an utter impossibility. Some lawyers seem to regard it as their duty to remove as much of the sales appeal as possible from mutual fund sales copy submitted to them for approval.

If other businesses were forced to submit to such hamstringing of their advertising copy, we might see ads similar to these:

SPEND YOUR VACATION IN FLORIDA And Bask in the Sunshine! (if any)

DO YOU SUFFER FROM INSOMNIA? You Can Really Sleep on Goose Down Mattresses (especially after taking three sleeping pills)

VISIT THE STATE OF MAINE If You Enjoy Good Trout and Bass Fishing (expect to catch nothing and you won't be disappointed)

SMOKE OLD HACKLE CIGARETTES Endorsed by Thousands of Doctors! (each doctor was paid $100 for his endorsement)

SAVE YOUR MOVIE MONEY! Enjoy a Midget Home Television Set (seldom ruins your eyesight in less than a year)

No Easy Road to Riches

Wellington Fund in an attractively illustrated new folder called "Which Way?" discusses speculation vs. investing for security. An excerpt follows:

YOU are the captain of your fate! You alone can decide whether to risk your savings in speculating for a fortune or assure your future security through careful planning. You may hope a lucky speculation will bring you a fortune some day. Perhaps—but the chances are slimmer than ever of making a fortune this way because of present high income taxes. If you should lose your savings, present taxes make it almost impossible to get them back. So why risk your savings in speculating?

"If you're sick, you call a doctor—if you're in legal difficulties, you call a lawyer. If you want to accumulate a fund for your future security, why not consult your investment dealer who is a specialist in investing. Your dealer can show you the best way to protect and increase your savings. He can select the types of investments to meet your needs and objectives.

"There is no easy road to riches but there is a sound way to protect and increase your savings for your future security through a planned investment program. Let your investment dealer show you the best way!"

The "National" Formula Plan

"National" recently issued a three-color folder complete with charts on its formula investing plan. The following is an excerpt:

"National Securities & Research Corporation has used its formula investing plan since Jan. 1, 1948 specifically in determining the investment pattern of First Mutual Trust Fund, one of a number of funds which it manages and sponsors. National Securities & Research Corporation also uses this plan as a guide in the over-all pattern of its 'balanced' funds, i.e. funds permitted to own both bonds and stocks.

"First Mutual Trust Fund enables both institutional and individual investors to obtain through a single investment the two-fold benefits of:

"(1) Formula plan investing over the longer-term.

"(2) Careful selection and continuous supervision of the underlying securities by professional investment managers.

"Under the Formula Plan, holders of 'First Mutual' will never be over-invested in common stocks at the beginning of a bear market. Nor will they have too high a percentage of bonds at the beginning of a bull market.

"'First Mutual' is the largest mutual fund with its investment pattern based on a scientifically developed formula investing plan. It is designed for institutions or individuals who are seeking enhancement of capital during periods of rising stock prices, and protection of their capital during periods of declining stock prices."

Rising Prices and Common Stock Values

"If the guest who contemplated this menu just prior to the Civil War in what then was, as it still is, one of New York's prime restaurants could have foreseen the prices on a 1949 menu, he would certainly have approached his meal with less than accustomed relish . . .

DELMONICO'S
RESTAURANT
494 Pearl Street

BILL OF FARE

Cup Tea or Coffee	1	Pork Chops	4
Bowl Tea or Coffee	2	Pork and Beans	4
Crullers	1	Sausages	4
Soup	2	Puddings	4
Fried or Stewed Liver	3	Liver and Bacon	5
Fried or Stewed Heart	3	Roast Beef or Veal	5
Hash	3	Roast Mutton	5
Pies	4	Veal Cutlet	5
Half Pie	2	Chicken Stew	5
Beef or Mutton Stew	4	Fried Eggs	5
Corn Beef and Cabbage	4	Ham and Eggs	10
Pigs Head and Cabbage	4	Hamburger Steak	10
Fried Fish	4	Roast Chicken	10
Beef Steak	4		

Regular Dinner 12 Cents

Smith & Handford Printers, 23 and 25 Dey St., N. Y.

"Says the 'Book of Indices':

"'In these days (of the menu) an excellent wage was $6 a week. If a person with this income ate the regular dinner at Delmonico's seven evenings a week he would be paying 84 cents a week, or 14% of his wages, for his night meals. Today an equivalent meal in New York undoubtedly could not be had for less than $1.50, if that. Seven times this figure is $10.50, and if this sum be taken as 14% of the weekly wage, then his current income every seven days would be $75.

"'Thus in roughly 110 years wages have advanced from $6 to $75 per week for the same work. This is an inflation of the dollar which averages out to 100% per decade for 11 successive decades.

"'If the value of the dollar in the year 2060 bears the same purchasing relationship to the present dollar that the present dollar bears to the 1834 dollar, then the progression of wages for the same work will have been from $6 in 1934 to $75 today to $938 per week in 2060.

"'Those investors who think that the progress of inflation is coming to an end had better consult the record of the last century to find out how fast and steadily the value of the dollar has depreciated, as by this means the mass of chronic have-nots, always in the voting majority, help themselves to the savings of the productive minority. Those investors who think that the present Administration will not find ways and means of carrying much further forward this basic trend, so politically profitable, had better go out in the woodshed on the coldest night of the year and there in the unrelieved darkness think themselves another think.'

"All this boils down to the simple fact that so far as we can tell from past experience there will continue to be a basic advance in the price structure of the country; and also if past experience is any criterion, common stocks have amply demonstrated their ability to progress to increasing values in line with the continuing development of American business enterprise."—From **Vance, Sanders** "Brevits."

Market Comment

"The market continued to adjust itself to our changing economy in a calm and sedate manner during April with only small changes in the general averages. Underneath the surface, however, there were more evident trends with defensive issues continuing to attract most buyers. During the last five weeks we find that 18 groups of stocks have moved to new lows for the year while 19 have sold at new 1949 highs. This extreme selectivity has been evident ever since May of 1947 when the postwar lows were made by the combined averages. Since then there have been such extremes as a

45% gain in the aircraft stocks and a 35% decline in the leather shares.

"May has often been a month when the market has made up its mind. This was true in 1940, when it declined after it was evident the war was not 'phoney.' It was true in 1942 when it started a four-year bull market. It was true in 1946 when it reached its bull market high, and it was true in 1947 when it reached the lowest level so far seen in the postwar period. April's trading gave few clues as to the near-term trend but at least there was good defensive action which could encourage a recovery movement. For six months the market has met support in the 170-171 area for industrials and in the 46-47 area for rails. Underneath that are the three-year support levels of 160-165 for industrials and 41-42 for rails. If the market is to move up it will have to prove its ability to absorb offerings in the 179-183 area for industrials, and in the 52-55 area for rails. Closing levels for April were 174.16 and 47.27, respectively.

"Lifting of the Berlin blockade will help relieve some of the nervous tension that has existed around the world during the last year. At the same time there is no assurance that Russia will so change her long-term objectives that we could feel safe in removing the prop of defense business that has supported our economy in recent years. Such news should enable the market to move further away from the critical support levels of the last few years. Ability to act well this month would probably give the market a breathing spell until the fall business trend is more clearly defined. The summer months have not been a time when the market has made big decisions as to the business outlook. Perhaps this is the reason why no bear market has ever started in June, July or August, and why the majority of them have been delayed until September or November."—Written by Ralph Rotnem of **Harris, Upham & Co.**

Reynolds Co. Sponsors Investment Course

PHILADELPHIA, PA. — The Philadelphia office of Reynolds & Co., 1528 Walnut Street, members of the New York and other leading stock and commodity exchanges, has been conducting at the Bellevue - Stratford Hotel there, an interesting and popular Investment Course for Women. Though none of their customers were solicited and, in fact, the whole solicitation was through newspaper advertisements, approximately 600 applications were made and tickets issued for this series which began Wednesday, May 4, and is continuing each Wednesday through June 8.

In its advertising, Reynolds & Co. invited the preference of the "scholars" for morning, afternoon, or evening sessions. The great preponderance of opinion was for evening courses and, therefore, the time was set for 8:00 p.m. Necessarily, this made it impossible for some of the applicants to attend but at the sessions held thus far attendance has run around the 500 mark.

The program is wide in scope but the treatment is intentionally rudimentary and in simple language with careful avoidance of the highly technical investment fraternity jargon except where unavoidable. Each student at the opening night was given a notebook similar to the type used in the average school, with which to make notes of the lecturer's remarks. It has been impressive to observers of these classes how attentive the group of women is and how many of them make serious use of their notebooks. In addition, each student found enclosed some sample forms to be used at any time they wish to ask specific questions.

The program was developed in the Reynold's office and an effort was made to have a variety in the type of speakers because the course was conceived in the nature of a civic enterprise as well as for the very practical purpose of disseminating information about, and taking some of the mystery from, the securities business. The topics of the discussions already given and those scheduled together with a list of the speakers follows:

May 4: Introduction to and scope of course.

(a) Regulations for Protection and Benefit of Investors; SEC; Penna. Security Commission, NASD; Federal Reserve and Stock Exchange Rules—John A. Murphy, Partner, Reynolds & Co., and William K. Barclay, Jr., President of Philadelphia-Baltimore Stock Exchange, Partner Stein Bros. & Boyce.

(b) Simple definitions of securities. How to buy and sell. Range of available yields. Differences and similarities between securities and other forms of investment — William M. Bennett, Research Department Manager, Reynolds & Co.

May 11: Further definitions including basic, growth, and cyclical industries. Methods of value measurement and determination of individual investment courses. Sources of financial information—William M. Bennett.

May 18: Financial Statements; Balance Sheets and Income Accounts. Dividends; Interest; Book Values. Ratios as indexes of relative quality—W. A. Nagele, Associate Professor of Accounting, School of Business Administration, Drexel Institute of Technology; New York Stock Exchange film "Money at Work"—L. S. Warren, Reynolds & Co.

May 25: Individual objectives and methods of portfolio planning —Diversification—Relative places of Savings Funds, Insurance, Common Trust Funds—Albert Whittlesey, V.-P. and Trust Officer, The Pennsylvania Co. for Banking & Trusts.

June 1: Investment Companies —Periodic payment plans—Joseph E. Welch, Executive Vice-President, Wellington Fund, Inc.

June 8: Forecasting and analysis. The Business Cycle and Investment Timing—W. Linton Nelson, Investment Counsellor, Pres., Delaware Fund, Inc.

Bruns, Nordeman & Co. Add Three to Dept.

Bruns, Nordeman & Co., 60 Beaver Street, New York City, members of the New York Stock Exchange, announce that Frank Rosenthal, Allen Dansky and Milton Salit have joined their rayon department which is under the management of Leonard D. Stertz.

Mr. Rosenthal was production manager and stylist for many years with Haas Bros. Fabrics Corp. Prior to that, he was associated with A. S. Rosenthal & Co. in the same capacity and for the past seven years has been with the Ben Mann Fabrics Corp., also as stylist and production manager.

Mr. Dansky was formerly associated with the brokerage firm of Arthur Cohen & Co. Both he and Mr. Salit are well known in the rayon trade.

Zippin & Co. Move To Larger Quarters

CHICAGO, ILL.—Zippen & Co., specialists in foreign securities, have taken much larger space at 208 South La Salle Street (their present address), and expects to be in their new quarters about May 18.

Woodcock, Hess Co. Formed in Philadelphia

PHILADELPHIA, PA. — Hess & Co., Inc., and Woodcock, McLear & Co., have announced the formation of Woodcock, Hess & Co., Inc., with offices at 123 South Broad Street. The new firm, like its predecessors, is a member of the Philadelphia-Baltimore Stock Exchange.

Heading the new firm are Arleigh P. Hess, Chairman of the Board, and Harold P. Woodcock, President. Other officers are William Z. McLear, Executive Vice-President; Daniel J. Taylor, Ralph E. Hendee and Russell M. Dotts, Vice-Presidents; and Warren H. Bodman, Secretary and Treasurer.

In a joint statement, Messrs. Hess and Woodcock said: "The combining of the two firms will bring into one well-balanced organization the officers, partners and sales departments of both companies. Our activities in the investment field will be broadened particularly in the public utility field and we believe we will be able to render an even more comprehensive service to our customers than in the past."

Shriver Heads Div. at Harriman Ripley

Harriman Ripley & Co., Inc., 63 Wall Street, New York City, announces that T. Herbert Shriver II has been appointed Manager of the Railroad Division of the Buying Department.

Mr. Shriver has been with Harriman Ripley since January, 1937, when he entered the Sales Department. He was on leave of absence from 1941 to 1946, during which time he saw active service as a Lieutenant in the Navy. He has been attached to the Buying Department since his return and has been acting head of the Railroad Division since August, 1947.

Bourbeau, Henderson With Daniel Reeves

(Special to The Financial Chronicle)

LOS ANGELES, CAL.—Edward J. Bourbeau and Robert J. Henderson have become associated with Daniel Reeves & Co., 271 South Beverly Drive, Beverly Hills, Cal., members of the New York and Los Angeles Stock Exchanges. Mr. Bourbeau was formerly Vice-President of Bourbeau & Douglass, with which Mr. Henderson was also associated in the trading department.

Robert Veit Nominated To Head Mun. Forum

Robert T. Veit, Manager of the Municipal Department of Shields & Co., has been selected by a Nominating Committee as the candidate for Presidency of the Municipal Forum of New York for the fiscal year 1949-50.

Other officers selected for election at the annual meeting to be held on June 8 are: Albert J. Milloy, of the First Boston Corp.; Vice-President: C. M. Haight, Jr., of Tripp & Co., Secretary and Rudolph J. Harper, of Fiduciary Counsel, Inc., to succeed himself as Treasurer.

Nominated for members of the Board of Governors to serve three-year terms are: James J. Carpenter of Bankers Trust Co., and Otto H. Coettert, of Central Hanover Bank & Trust Co.

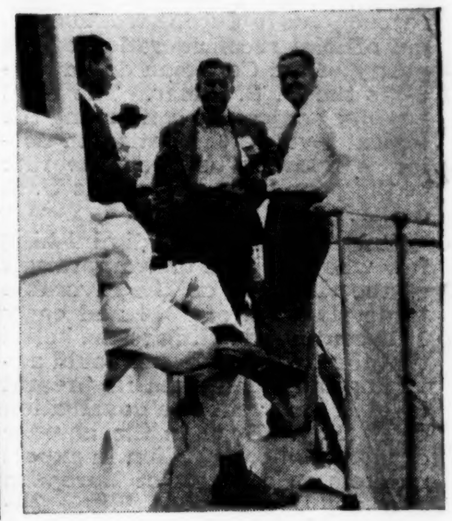
The Nominating Committee is Francis P. Gallagher, of Kidder, Peabody & Co., Chairman; Charles F. Aufderhar, of Savings Banks Trust Co., George T. Ragsdale, of Lehman Bros., David M. Ellinwood, of Moody's Investors Service and Glenn D. Thompson, of National State Bank, Newark.

Texas IBA Group on Houston Ship Channel

Pictures taken aboard ship during Annual Meeting

(Facing camera, left to right)—Arnold J. Kocurek, *Rauscher, Pierce & Co.*, San Antonio, Texas; Robert R. Harmon, *Shields & Co.*, Chicago

Robert E. Moroney, *Moroney, Beissner, & Co.*, Houston; Robert K. McConnaughey, *Securities & Exchange Commission* Washington, D. C.



Eugene Bashore, *Blyth & Co., Inc.*, New York City; Claude T. Crockett, *Moroney, Beissner & Co.*, Houston; A. S. Wiltberger, *Blyth & Co., Inc.*, Chicago

Rex Cromwell, *Dallas Rupe & Son*, Dallas; Robert E. Moroney, *Moroney, Beissner & Co.*, Houston; Jack Taylor, *University of Texas*, Austin, Texas. (Standing in background)—Eugene Bashore, *Blyth & Co., Inc.*, New York City; Robert Brown, *Blyth & Co., Inc.*, Houston

Bawl Street Journal Now in Production

Wall Street, which is rarely surprised at anything, is getting set for its annual flood of surprises when "The Bawl Street Journal" comes out on June 3 as a feature of the Bond Club Field Day.

The financial burlesque edition will tell how Billy Rose is going to take over the Stock Exchange and run it not only profitably but glamorously—it will reveal which large banking institution in New York claims the title of the original Pyramid Club—and it will give details of a plan by which an investor can put $2 out at compound interest, have himself frozen for 200 years and be brought back to life a millionaire.

Also, "The Bawl Street Journal" will deal with the present state of the investment underwriting business and for the first time will disclose a plan to replace the two-story building at 23 Wall Street with a 20-story hotel, using the present edifice as a penthouse.

Advertisements in this year's paper cover fields is as diversified as the plunging neckline, the latest goings-on in Washington, the outlook for the Long Island Railroad and the activities of specialists on the New York Stock Exchange.

Advance orders are being taken for copies of "The Bawl Street Journal" (at $1 each) to be delivered on June 3. The paper will also be on sale that day in the financial district. Myron F. Ratcliffe of Lehman Brothers is Chairman of the Circulation Committee.

Canadian Securities

By WILLIAM J. McKAY

The burning question of devaluation of certain European currencies has reached the stage where it now appears merely to be a matter of timing and degree. Competent authorities both here and in Europe now no longer hesitate to state that the maintenance of wartime exchange controls and trade restrictions designed to maintain currencies at artificial levels constitutes the principal stumbling block in the path of freer intra-European trade. In turn it is now generally believed that the lowering of European export prices as a result of currency devaluation would also place U. S.-European commerce on a sound basis.

In face of this strong resurgence of devaluationary sentiment it is not surprising that authoritative quarters in Canada have at last abandoned their reticent attitude towards this subject. It is frankly admitted that a wave of currency adjustments in Europe would compel official reconsideration of the parity of the Canadian dollar vis-a-vis the U. S. dollar. The most popular conjecture concerning the logical level of the Canadian dollar is midway between the rate of the pound and that of the U. S. dollar.

Only the rapidly diminishing few who still base their appraisals of the situation on the favorable trade statistics of 1948 and early 1949 continue to cling to the belief that the Canadian dollar could advantageously maintain its present level in the event of a devaluation of sterling. Even in the absence of increased competition in export markets as a result of European currency devaluations, future Canadian foreign trade figures can hardly fail to register the recent change in world economic conditions. In these circumstances in order to maintain the official dollar at its present parity Canada would be obliged to revert to an unrelieved system of exchange control and trade restrictions. Such a policy would be directly contrary to the Dominion's interests and its own avowed objectives —freer world trade and multilateral convertibility of currencies.

The suggestion that Canada might take the initiative in breaking the currency deadlock has also not received summary condemnation as might have been expected in view of the Dominion's natural reluctance to bring any pressure to bear on sterling. Perhaps the Dominion's realistic attitude towards exchange manipulation which has been demonstrated on previous occasions, provides sufficient explanation. Canada's vital dependence on foreign trade moreover inevitable leads to the conclusion that the Dominion stands more to gain than any other country in the event of a universal abandonment of exchange and trade restrictions.

Whether or not any action is taken before the Canadian elections, this event can not fail to have an important bearing on the situation. A Conservative victory will bring the lifting of all exchange restrictions; a C. C. F. success will result in imposition of still more rigid exchange restraints; the most likely result of all—no party with a clear majority, could lead to a reversal of many of the policies pursued by the long-entrenched Liberal regime.

During the week there was a minimum of activity in the external section of the bond market and the internals were also quiet with a fairly firm undertone. Free funds showed a disposition to weaken following a long period of persistent strength, but the corporate-arbitrage rate remained steady in the neighborhood of 11%. Stocks were mostly dull and slightly easier. Golds and Western oils, however, continued to attract investment demand and the base-metals after touching their lowest level since early 1948 finally showed some improvement as a result of the rise in the price of copper-scrap.

Rodney Darling Joins Moors & Cabot, Boston

BOSTON, MASS.—Rodney M. Darling has become associated with Moors & Cabot, 11, Devonshire Street, members of the New York and Boston Stock Exchanges, as Manager of the Trading Department. Mr. Darling was formerly in the trading department of du Pont, Homsey Co.

Rodney Darling

Barclay Open Till 9

CHICAGO, ILL.—Barclay Investment Co., 39 South La Salle Street, will remain open Tuesday nights until 9 p.m. to serve their clients who find it hard to visit their offices during regular business hours. Tuesday night visitors may enter the building on the Monroe Street side at 122 West Monroe Street, by ringing the bell and being admitted by the night watchman, since the 39 South La Salle Street entrance is closed after 6 p.m.

The firm also announces that it will be closed all day Saturday during June, July, August and September.

Robert Crookston Dead

Robert R. Crookston, partner in Singe, Deane & Scribner, Pittsburgh, died on May 12.

Broken Government Promises

By HENRY H. HEIMANN*

Executive Manager, National Association of Credit Men

Mr. Heimann, asserting this generation relies on promises, and promises are what we live by, points out broken government promises in field of money-exchange and credit. Attacks devaluation of gold dollar as "upset of only sound standard man has ever devised as monetary yardstick," and cautions time has arrived for government to be careful of its promises. Denounces farm support program, managed economy and present socialistic trends as depriving people of just fruits of capitalism.

Since the days of the early Romans, when they erected temples to Jupiter as the god who ruled over oaths, vows, conscience and the sense of obligation and right dealing, man has relied on promises. As these promises were respected and followed through by performance, civilization progressed; as they were broken and forgotten, the world's problems and misunderstandings developed. There is nothing more sacred in a civilized state of society than a promise. There is little more tragic than a broken or false promise.

Henry H. Heimann

A promise may be oral or written, expressed or implied, or it may be a natural consequence of a given action or set of conditions. Irrespective of the form it assumes, it is essential that it be treated as a pledge and that it be fulfilled.

A promise can be spiritual or material. It can be good or bad but a bad or false promise is a means of deceit and should find no more acceptance than a lie.

Hitler, Mussolini and Stalin all promised their people a much better way of life but these promises were false; they knew they were false and they proved to be false. Even in the fulfillment of some of these promises, they operated on a false premise. Hitler assured his people that he would keep them fully employed. He did so by preparing for war. He employed them in armament factories with his sinister motives in mind. Of course he kept them employed, but that wasn't the kind of employment he promised them. Other promises of Mussolini and Stalin were equally vicious. Stalin and his gang are today offering their own false promises.

Long before we knew the wholesomeness and soul-satisfying attributes of religion as we know it now, primitive man and woman lifted their arms in worship, knowing full well that if they sincerely sought spiritual comfort, there was inherent in their very act a promise of peace and happiness they could attain in no other way.

We of this generation rely upon promises. In our nation we are promised freedom and opportunity if we conduct ourselves so as to be worthy of it. In some nations no such promise is implied, but rather, the lying assurances of a better way of life through a state-controlled society.

Webster says "a promise is a declaration, verbal or written, which binds the promisor to do or to forbear to do a specified act—a covenant—to afford reason to expect—to cause assurance."

In our daily life we have had to develop a yardstick by which we can evaluate or weigh our transactions in work, agriculture, trade and commerce. Some people call it money but more frequently it is credit expressed in terms of money. It is evident therefore that this yardstick must be stable, unvarying, and that the government, whether it so expresses itself or not, has a sacred pledge of honor to maintain it on a stabilized basis. To do otherwise is to cheat and defraud and to destroy the faith of citizens in their government.

We are living in a world today that reflects the broken promises of yesterday. Mankind has a right to expect governments to labor for peace but broken and false promises have brought us two of the worst wars in history and now we are seeking a way to avoid a third conflict. Nations have enslaved and tortured people through broken promises in a way that would make the medieval horrors seem mild by comparison. Until there is more honesty in the protection of inviolable rights, people will continue to suffer throughout the world.

Broken Promises in Field of Money and Credit

One of the problems we face today is the difficulty of overcoming the results of broken promises in the field of money exchange and credit. You cannot transact business with any assurance when you must evaluate your trade and commerce in a currency or exchange that has little stability or certainty of value. You cannot farm or work for a living successfully if your labors are rewarded in dubious or valueless currency. This problem is more than a problem for the financier or the centralized banking authority. It is a problem of the working man and woman, of the farmer and businessman and the people living on fixed incomes. It seriously affects their daily life and it makes for such chaos and confusion that it is hard to plan for the future. It is a potent force for unrest, since it gives dictators the chance to win a following.

We of this nation are not blameless in the present world monetary situation. We deliberately devalued gold to upset the only sound standard man had ever devised for a monetary yardstick. This promise made by our government and fulfilled by our government in most of our history was broken. Many questioned the right of our government when it did this. Expediency is never an excuse for broken promises.

You have throughout the world today a confusion of exchange and monetary values that is preventing a sound world recovery and delaying a return to peace. Arbitrary values that are unrealistic have been placed on the money of different nations. These values are a fraud upon their own people. They are a bold-face lie; they time and again shatter the faith and liquidate the industry and thrift of men and women.

When you resort to a managed economy in which you regiment people and defraud them of their savings through constantly devaluing managed currency, either directly by government edict or by the inflationary consequences of your program, you reap a harvest of social unrest, class hatred and national animosity. You build for wars and for the loss of faith in government. Your broken promise is a pathway that leads to a lower standard of living and a life of fear and suffering. You are levying what amounts to a confiscatory capital tax that would, if immediately realized by the people, bring on a rebellion.

A promise by government cannot and should not be taken lightly. It is a pledge that should and must be fulfilled. If a government seeks respect, it must by its conduct earn respect. A government, like an individual, must be careful in its promises. It must realize it is expected to fulfill them if it wishes its people to respect it.

In recent weeks we have concluded the North Atlantic Pact. Many people were not convinced this was to the long range interest of the peace of the world. Some of the leaders of government could not understand how there could possibly be any skepticism about a plan they contend is so obviously in the interest of peace and for the welfare of mankind. Whether they were right or wrong in their puzzlement in trying to understand the doubt of our people is beside the point. However, there can be no question as to why many people doubted. They doubted because of the failure of government to fulfill promises in the past.

Not once but many times our people have been promised a better way of life and a more peaceful world atmosphere if they would only accept this or that plan. But though the plans were adopted, the fulfillment of the promises was never realized.

You will recall in the history of our times we were given the 14 points. They were the commandments that were to be the guide posts for peace and happiness. No one can question or did question their idealism. But the 14 points were soon forgotten and the world continued in its misunderstanding. These promises were mere scraps of paper. Next we had the treaty of Versailles. Scarcely had the ink been dry before it was realized that instead of this document insuring peace, it really made for unrest. It was a false promise to victor and vanquished. The Dawes and Young plans followed. These plans, we were told, would enable Germany to rebuild and at the same time permit other nations to rest secure in the knowledge such plans would prevent a return of militarism. Irrespective of how well conceived by the authors of the plan, the plan failed.

The agreement to scrap armaments was presumed to be incontrovertible evidence of the arrival of an understanding world—but all these assurances proved erroneous and we faced the fact that in acting in good faith we made ourselves ridiculous in a world of militarism.

The League of Nations, nobly conceived, went the way of other efforts to establish peace. With due ceremony we celebrated the signing of the Kellogg-Briand Pact. Our celebration was followed by gathering war clouds.

Before and during the recent war we told our people that Lend-Lease would tide the war victims over and enable them to move forward once the war had ceased. It did no such thing. We next devised UNRRA. That was to be the final effort but it proved to be but the beginning. Then we were told a British loan would help our gallant ally to effect a complete recovery. The loan was made but when the money was ex-

(Continued on page 26)

*Keynote address of Mr. Heimann at the 53rd Annual Convention of the National Association of Credit Men, Atlantic City, N. J., May 16, 1949.

Railroad Securities

Lehigh Valley Railroad

In a dull and largely static market the bonds of Lehigh Valley Railroad have been jumping around rather erratically in recent weeks. Interest in this situation has centered around progress being made toward consummation of a voluntary debt readjustment plan. This is the first test of the Mahaffie Act passed last year in an effort to expedite railroad reorganizations. The plan has the approval of the Interstate Commerce Commission. On May 10 it was announced by C. A. Major, President, that the terms had been approved by more than the necessary 75% of each class of security affected. This naturally fostered hopes that consummation of the plan would not be long delayed.

It now appears that these early hopes for speedy consummation of the readjustment were at least premature. On May 12 a small holder of one of the underlying liens filed suit in New York Supreme Court attacking the plan. This action may well be carried through the highest courts and presumably in the long run will determine the constitutionality of the Mahaffie Act. Close students of the history of railroad reorganization legislation see little danger that the Lehigh Valley reorganization will be upset by the courts. Similar voluntary reorganization legislation has withstood the court test of constitutionality in the past.

Announcement of the litigation naturally dampened speculative enthusiasm that had begun to appear when the results of the voting by bond holders had been announced a couple of days before. While there are few who fear that the plan might be upset, there are those who are concerned over the prospect of possible long delays in putting the plan into effect. In this connection there are many analysts who remember only too well the harmful affect on Baltimore & Ohio of the extended litigation with respect to its voluntary readjustment plan a few years ago.

It had generally been conceded that on consummation of the plan, Baltimore & Ohio would be able to refund its senior mortgage bonds at a considerable saving in interest costs. By the time the suit of junior bond holders had gone through all of the courts, market conditions had changed so drastically that the refunding was no longer feasible. Prospective refunding of senior liens is obviously not a factor in the Lehigh Valley picture at this time. Nevertheless, the prospect of a possible long delay under present conditions of uncertainty has tended to unsettle the market for the company's securities.

There can be no question but that the readjustment plan was, and still is, essential to Lehigh Valley. As of the end of last year the company had maturities, exclusive of equipment obligations, of $45,354,000 falling due in the years 1949-1957, inclusive, of which more than $32,500,000 was payable in the three years 1949-1951. There was not enough cash in the till or in prospect to meet these obligations. The only alternatives were the present Mahaffie Act voluntary extension of the maturities or the much more expensive and lengthier process of a thorough reorganization under Section 77. On the basis of past history it is safe to say that had Section 77 been resorted to the end result would have been far more drastic treatment for at least the junior security holders.

Obviously senior bond holders are not going to accept an extension of their maturities without some concessions, and without some sacrifice on the part of junior security holders. The latter after all, benefit the most from avoiding a drastic judicial reorganization. As a concession, sinking funds were established for the senior bond holders. Also, 75% of the interest on the road's junior mortgage bonds is to be put on a contingent basis. This latter will minimize the danger of the company getting into difficulties over meeting its charges in the future. The sinking funds will help to solve the question of future principal maturities. Even with the possible delays of litigation there is no question but that the whole present process is constructive and should add materially to the road's credit standing and, thus, to the market appeal of its various bond issues.

M. J. Dodge, Well-Known Banker, Dies

Marshall Jewell Dodge, formerly a member of the New York banking firm of Bertron, Griscom & Co., now Bertron & Co., Inc., died last Sunday while returning from England, after an illness of six weeks.

Following his connection with Bertron, Griscom & Co., which engaged in the operation and financing of public utilities, Mr. Dodge became a partner in the New York Stock Exchange firm of Palmer & Co. until its dissolution in 1932.

He was active in the formation of the Todd Shipyards Corporation, becoming a director in 1917. Resigning his directorship in 1936, Mr. Dodge became the European representative of the Todd Shipyards Corp.

Mr. Dodge, a native of Hartford, Conn., and a graduate of Yale in 1898, was a grandson of William Earl Dodge of New York, philanthropist, publicist, and founder of Phelps, Dodge & Co., now Phelps, Dodge Corp. Mr. Dodge was a grandson of Marshall Jewell, four times Governor of Connecticut, American Minister to Russia and Postmaster General in President Grant's cabinet.

Henry T. Mathews, Dir.

CHICAGO, ILL. — Henry T. Mathews of Doyle, O'Connor &

Henry T. Mathews

Co., Inc., was elected a director of the Missouri Pacific RR. at the annual meeting held May 10 in St. Louis.

A. A. Winner Joins Hettleman & Co.

Hettleman & Co., 1 Wall Street, New York City, members of New York Stock and Curb Exchanges, announce that Arthur A. Winner has become associated with the firm.

Let the Railroads Be De-Regulated!

By ROBERT B. McCOLL*

President, American Locomotive Company

Noting absence of new railroad financing, despite need for additional improvements, Mr. McColl lays cause to inadequate return on railroad capitalization and unfair national transportation policy. Says railroads are barred from good competitive practices granted to other carriers, and calls for releasing them from shackles which are holding back their development.

I would like this evening to explore with you the possibility that the railroad industry, of which we are all a part, may be approaching a significant new period in its history—that there are reasons for believing great things may lie ahead—*always providing we work for them.*

Robert B. McColl

It is perfectly clear that a revolution is taking place today in the field of railroad motive power. There is almost no demand for steam locomotives. Approximately 96% of all orders today are for diesel-electrics. The reciprocating steam locomotive is a "vanishing race."

The reason is not hard to find. It has been estimated that dieselization of American railroads — costing something like $3½ billion —can cut U. S. railroad operating costs at least half a billion dollars a year, and perhaps as much as three-quarters of a billion dollars a year. The diesel-electric is a powerful economizer.

Diesel Revolution Spotlights Possibilities

But the diesel revolution is doing something more. It has already turned the spotlight on the potentialities for mechanical progress which exists today in the railroad industry.

It's like a Scotsman finding a shilling on the sidewalk. The impulse to look for more becomes strong—very, very strong.

You are all familiar with the work being done to improve railroad equipment today. The drawing boards are covered with designs. Equally important is the work being done to improve handling facilities. The economies which may be possible through improved materials-handling methods are getting a great deal of attention everywhere.

But the moment we start talking about cost-reducing improvements through equipment and facilities, we come up hard against the problem of money—of capital investment. Ahead of the mechanization problem—or at least right along with it—comes a financial problem.

Where can a railroad get the money to buy constantly improved equipment?

At the present time, American railroads are getting money almost exclusively from only two sources. They are getting it from earnings when they can; and they are getting it from equipment trust certificates.

They are certainly not getting it through the securities markets. It is doubtful whether any considerable amounts of mortgage bonds could be sold by most railroads at reasonable rates today—even if it were wise for them to increase their debt.

We Have a Financial Job to Do

They are certainlly not doing any financing — although what they really need more than anything else is more risk capital. The trouble is our railroads have been able to distribute only about 25% of their earnings in the form of dividends in recent years. Their earning power recovered during the '40s, but the railroads as a whole did not pay dividends in any year of the '40s equal to the dividends paid in the lowest year of the '20s.

The refusal of the American people to risk their savings in any company or industry is not evidence that they are either foolish or anti-social. It is simply evidence that a basic situation isn't right and needs to be fixed. Risk capital will be attracted to any industry—and create jobs and security — when earnings, dividends and prospects are good.

When railroad stocks are selling at two-times earnings — as some of them are; when railroad bonds are selling to yield 10% in spite of large coverage; when whole railroads are priced in the market at less than their cash and rolling stock — so that plant is being thrown in free — a fundamental situation needs fixing.

Two Sources of Funds Are Not Enough

It is certainly not satisfactory when only two sources of funds are available. Equipment trust certificates are good only for buying equipment. Earnings—the only other source of money for progress — are today under constant threat from a variety of sources. For example—

Rising costs which are not offset promptly by rate changes;

Competitive conditions — which often mean that a rate change isn't a solution to any problem because the business will go elsewhere if higher rates are actually put into effect.

Taxes — part of which go to subsidize competing forms of transportation;

Wage increases if they are not earned—no matter how well-deserved they may seem.

Only recently, as you know, the railroads of this country accepted the recommendation of the President's Emergency Board, created under the Railway Labor Act, and will establish a 40-hour week for non-operating employees, beginning September 1. This is in effect a 20% increase. It comes on top of a 90% increase since 1939. It will cost railroads something like $640,000,000 a year. Last October, you remember, operating employees got a wage increase amounting to $95,000,000. The total of these two wage increases approaches three-quarters of a billion dollars, and in 1948 the railroads of this country had a net income of only $700 million.

We Have a Job to Do with People

It appears there is some other job to be done before we can do either the financial or the mechanical job.

What is it?

I would like to suggest that we first have *a job to do with people* —that we have first and foremost a human problem.

I certainly agree with all who say that we want a sympathetic understanding on the part of the American people. The railroads are important to America—*tremendously important.* Try to visualize an America without railroads.

But I think that we cannot count on the general public to rise up and solve our railroad problems for us—or even to take time out from their busy lives to study the railroad situation.

1,300,000 Employees Have Great Stake

I would like to suggest that the answer lies much closer to home. There are in this country today about 1,300,000 men and women who are employees of America's railroads and who have at least as great a stake in the growth, survival, vigor and security of the railroad industry as any other group in the country. After all, 60% of the costs of operating a railroad are wages. Furthermore, these men and women are organized and vocal.

In addition, there are 900,000 stockholders and the 1,000,000 bondholders who have an equally important stake in the welfare of the railroads. It has never seemed possible to organize shareholders behind industrial projects, but we must not underestimate their potentialities.

And there are other groups which can certainly help in any program. Shippers and suppliers have a substantial stake in the survival and progress of our railroads. Certainly all of us in the railroad equipment industry have a big stake in a sound and prosperous railroad industry.

With the help of employees, I believe wonders may be achieved. I say this against a background of some experience. We at our company set a very high value on the help, cooperation, and understanding of all our employees. We want them to know and understand the problems of the company. We don't ever want it said that they failed to help the company and themselves because they didn't know the facts. The same thing is true of shareholders.

These Objectives Are Important To All

If we are to have the help of large groups of people, we must have objectives important to them. I think we have such aims for employees, for security holders and for all associated with American railroads—

First, greater security;

Second, better earnings;

Third, greater opportunity for growth and advancement.

But these things can be achieved only by giving customers of the railroad faster and better service at lower costs—because if we do not first take care of the customer in face of hard competition from trucks, buses, planes, water transportation and pipelines, we can't take care of employees or anyone else. Our aim must be to given investors a strong, solvent, prosperous, *dividend-paying* railroad industry — one that is attractive to *risk capital*—because if we don't attract money, we can't have modernization and low casts; we can't compete successfully with other forms of transportation; we can't get the business; and employees cannot have security, good earnings and opportunity. The basis for security for all must be a dynamic, strong, aggressive, forward-looking industry.

Nationalization Proved Failure in World War I

At this point, let's take a look at the whole broad question of government ownership, nationalization, regulation.

Do these offer roads to security for all—to a dynamic, strong, aggressive, forward-looking indus-

(Continued on page 31

*An address by Mr. McColl before Meeting of American Society of Mechanical Engineers, Chicago, Ill., April 27, 1949.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The Treasury through the use of short-term low coupon securities in the mid-year operation has again put off changes in debt policy which seem to be inevitable, especially in the not too distant future. . . . The demand side of the eligible market has been strengthened and will most likely be further bolstered, while the supply side has been reduced by the retirement of the higher coupon marketable issue in this refunding. . . . Stop-gap and temporary measures by the authorities may be sufficient to keep prices of longer eligibles within the limits of a stable market, but this will not work too long unless the supply of higher income bank obligations, preferably marketable ones, is increased. . . .

If Federal and all other holders of the three longest eligible taxables were to sell all of their bonds to the commercial banks, there would still not be enough to go around, if the Treasury is going to continue to substitute shorts for longs in refunding operations. . . .

Commercial bank ownership of higher coupon bonds that are callable in the next year or so is so far in excess of the total available supply that unless they are given something other than low income shorts there isn't going to be any such thing as price stability in the government bond market. . . .

ECONOMY AT BANK'S EXPENSE

Refunding of $5,315,135,000 of June bonds and certificates with one year 1¼% maturities keeps intact the refinancing pattern the Treasury has been using, which increases the short-term floating debt of the Federal Government. . . . Nothing new has been added to the picture so far, and the apparent obsession of the money managers to keep debt payments to the deposit banks down still goes on, despite not the slightest semblance of economy in the rest of the budget. . . .

Although not entirely unexpected, it was believed in many spots that the maturing 2s would be given a somewhat longer, higher coupon obligation than is being offered to them in the coming operation. . . . Accordingly mild disappointment is being registered among many holders of the June 2s. . . .

HIGHER PRICES BELIEVED INEVITABLE

Easier credit conditions that will most likely get easier, do pose a problem to the eligible section of the government bond market, despite other controls the monetary authorities have, such as the opening up of the non-marketable F and G obligations to the commercial banks. . . . The supply of higher coupon marketable bank issues will be further depleted when the June 2s are refunded into 1¼% certificates. . . . Sales of the longer-term higher yielding eligibles by the Central Banks along with switches and swaps out of them by non-bank holders of these obligations may be substantial enough to keep the last three maturities, the 2½s due 1956/58, the 2¼s due 1956/59 and the 2½s due 9/15/67/72 from getting out of hand temporarily. . . .

However, the substitution of low coupon short-term issues for higher income obligations cannot go on indefinitely under easy money market conditions, because the deposit banks which are losing other earning assets, must sooner or later seek those longer-term higher coupon bonds in order to bolster declining revenues. . . . Since the supply of the latter obligations is limited and is being further reduced by refundings, the enlarged demand for these securities will in time be reflected in higher quotations. . . .

SAVINGS BONDS AND MONEY MARKETS

Purchases of savings bonds in the Opportunity Drive by commercial banks, to make it a success, probably mean much to the monetary authorities, but would that be the best thing for the money markets? . . . To be sure, investible funds would be absorbed and there would be a shift from marketable to non-marketable debt, and some of the demand for the three longest eligible taxables would be temporarily taken out of the market, despite the lack of enthusiasm for non-marketable securities by most institutional investors. . . .

Nonetheless, it is believed in many quarters that the most effective method of offsetting the increasing demand for eligible obligations is by at least maintaining, if not adding to, the floating supply of marketable securities, with maturities and rates that need not be as costly as would be the opening up of the Savings Bonds to commercial banks. . . .

JULY AND SEPTEMBER MATURITIES

The July certificates will most likely be rolled over into 1¼s, so the September 2s, a small issue, will be the next high coupon obligation to come up for consideration. . . . Too many things can happen between now and then to master-mind what the monetary authorities could do. . . . Nevertheless, here is another one of those situations, and the way in which it is handled might indicate how the authorities are going to take care of the December and the 1950 maturities which are sizable and involve higher coupon obligations. . . .

RESERVE BOARD AND CREDIT CONTROLS

The chances of the Federal Reserve Board getting an extension or broadening of the temporary credit controls that expire on June 30, do not seem to be any too good. . . . Declining business conditions, lower reserve and margin requirements and more liberal terms under Regulation W, the latter three at the initiative of the Board, do not make convincing arguments for the extension of inflationary controls when there is no inflation to be controlled. . . .

Probably one of the most potent forces working against the request by the Federal authorities for these controls, is the attempt to have the reserve requirements of the member banks apply to all banks in the country. . . . If thsi provision had been eliminated, there would most likely not have been as much opposition to the extension of the interim legislation.

A Breath of Fresh Air

"There is no reason in the world why we should not grant full diplomatic recognition to Spain and send an Ambassador to Madrid. Whether the American people approve the policies of the present Spanish Government or not, has no bearing on the question of diplomatic recognition.

Robert A. Taft

"The United States policy has never demanded that foreign governments conform to American political principles before we will establish diplomatic relations. We send an Ambassador to Stalin and many other dictators whose form of government we violently disapprove.

"Several years ago, we weakly acceded to a resolution in the United Nations proposed by Poland calling on the members of the United Nations to withdraw recognition from Spain, and since then the Administration's policy has been inconsistent and difficult to understand.

* * *

"Certainly, the State Department should rectify at once its glaring inconsistency and shake loose from the Communist-front philosophy which seems to have guided its Spanish policy up to this time."
—Senator Robert A. Taft.

Here is the first breath of fresh air in this area for many a moon. We hope it is received as it deserves to be.

Federal Reserve Amends Margin Rules

Increases loan value on securities acquired through subscription rights from 50% to 75% and extends same privilege to subscription warrant purchaser. SEC comments on change.

The Board of Governors of the Federal Reserve System announced on May 19, that effective Monday, May 16, 1949, the Board of Governors has amended Regulations T and U (margin requirements), increasing from 50 to 75% the loan value for securities acquired through the exercise of subscription rights, whether exercised by the original holder or by a purchaser of the rights. The amendments specify that such transactions shall be set aside in a special account and that substitutions or withdrawals may not be made in the account. No new credit may be granted to a customer on the preferential terms if such a credit has been outstanding more than nine months without being changed to the 50% basis generally applicable under the regulations.

The text of the Amendment to Regulation U reads as follows:

Effective May 16, 1949, Regulation U is hereby amended by changing section 3 *(p)* of said regulation to read as follows:

"*(p)* A loan need not comply with the other requirements of this regulation if it is to enable the borrower to acquire a stock by exercising a right to acquire such stock which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance, provided that (1) each such acquisition under this subsection shall be treated separately, and the loan when made shall not exceed 75% of the current market value of the stock so acquired as determined by any reasonable method, (2) while the borrower has any loan outstanding at the bank under this subsection no withdrawal or substitution of stock used to make such loan shall be permissible, except that when the loan has become equal to or less than the maximum loan value of the stock as prescribed for section 1 in the supplement to this regulation the stock and indebtedness may thereafter be treated as subject to section 1 instead of this subsection, and (3) no loan shall be made under this subsection at any time when the borrower has any such loan at the bank which has been outstanding more than nine months without becoming eligible to be treated as subject to section 1. In order to facilitate the exercise of a right under this subsection, a bank may permit the right to be withdrawn from a loan subject to section 1 without regard to any other requirement of this regulation."

The Amendment to Regulation T is as follows:

Effective May 16, 1949, Regulation T is hereby amended by striking out section 6 *(l)* of said regulation and by adding the following subsection at the end of section 4 of said regulation:

"*(h)* **Special subscriptions account.**—In a special subscriptions account a creditor may effect and finance the acquisition of a registered security for a customer through the exercise of a right to acquire such security which is evidenced by a warrant or certificate issued to stockholders and expiring within 90 days of issuance and such special subscriptions account shall be subject to the same conditions to which it would be subject if it were a general account except that—

"(1) Each such acquisition shall be treated separately in the account, and prior to initiating the transaction the creditor shall obtain a deposit of cash in the account such that the cash deposited plus the maximum loan value of the securities so acquired equals or exceeds the subscription price, giving effect to a maximum loan value for the securities so acquired of 75% of their current market value as determined by any reasonable method;

"(2) The creditor shall not permit any withdrawal of cash or securities from the account so long as there is a debit balance in the account, except that when the debit connected with a given acquisition of securities in the account has become equal to or less than the maximum loan value of such securities as prescribed for general accounts, such securities may be transferred to the general account together with any remaining portion of such debit; and

"(3) No security may be acquired in the account at any time when the account contains any security which has been held therein more than nine months without becoming eligible for transfer to the general account.

"In order to facilitate the exercise of a right in accordance with the provisions of this section, a creditor may permit the right to be transferred from a general account to the special subscriptions account without regard to any other requirement of this regulation."

SEC Issues Statement

According to a statement released by the Securities and Exchange Commission, the Federal Reserve Amendments of Regulation T and U to reduce the margin required for the acquisition of registered securities through the exercise of short-term warrants do not operate to exempt any transactions from Section 11(d) (1) of the Securities Exchange Act of 1934. Subject to certain limitations, Section 11(d) (1) makes it unlawful for any broker-dealer to extend credit to or arrange credit for a customer on any security that is part of a new issue in the distribution of which he participated within the preceding six months as a member of a selling syndicate or group. However, Section 11(d) (1) does not prohibit an extension of credit by a bank or by any broker or dealer other than a member of such a selling syndicate or group, provided that the credit is not directly or indirectly arranged for by a person subject to Section 11(d) (1).

The Commission's Rule X-11D1-1 now exempts certain securities from Section 11(d) (1). Paragraph (d) of that rule provides an exemption from the credit prohibitions of Section 11(d) (1) for the benefit of **original holders** of subscription rights. Certain other exemptions are contained in the other provisions of Rule X-11D1-1. By reason of these existing exemptive rules of the Commission, a member of a selling syndicate or group is not prohibited from extending credit to **original holders** of rights, but the existing exemptions under the Commission's rule are narrower than the amendments just adopted by the Board of Governors of the Federal Reserve System in that the Commission's rule does not exempt extensions of credit to transferees of rights.

The Commission requests comments and suggestions on the question whether, in view of these amendments and the purposes of Section 11(d) (1), it should adopt a similar amendment to its exemptive rules under that section.

New Orleans Bond Club Holds Annual Field Day

NEW ORLEANS, LA. — The Bond Club of New Orleans will hold their annual field day on May 30 at the Metairie Country Club. W. C. Hildebrand, Chairman of the Field Day program, announces that tickets may be obtained from Charles Lob.

A feature of the day will be a golf tournament. Joseph Minetree, Steiner, Rouse & Co., is in charge of this event. Also on the agenda are a horseshoe tournament—Louis Klien, Chairman; and a swimming meet, of which George Riviere is Chairman.

Claude Derbes, Couturier and Derbes, is in charge of the drink committee, and Arthur Keenan is Treasurer of the Finance Committee.

Szymczak Opposes Gold Legislation

Federal Reserve Governor tells Delaware Bankers Association free circulation of gold is more likely to be hindrance to adoption of proper monetary policies than aid in maintaining economic stability.

In an address before the Delaware Bankers Association Convention at Wilmington, Del., on May 12, M. S. Szymczak, a member of the Board of Governors of the Federal Reserve System, expressed himself as opposed to legislation which aims to restore a free market and free circulation of gold. According to the Federal Reserve member:

M. S. Szymczak

"It would appear that a major objective of the proposed legislation on gold is to help the gold mining industry in the United States, which has been subject to rising costs while the price of its product has been fixed. The mining industry would benefit, of course, only in case the free market price of gold should rise above the present official price. It may be well to mention at the outset, therefore, that it is not certain that the market demand for gold would be adequate to raise the price, at least for an extended period, or perhaps even to maintain the existing price except as a result of official purchases. Moreover, assuming that the mining industry would be benefited, it would seem questionable policy, considering the welfare of the general economy, to encourage a shift of productive resources of this and other countries into gold production to provide gold for hoarding.

"There are, however, much more fundamental objections to this proposal. By removing controls over gold ownership and gold trading, the proposed legislation would deprive the government of a key instrument in the maintenance of international monetary stability, namely, its ability to control gold settlements between this country and foreign countries and thereby to eliminate capricious and speculative gold movements. Also, if the legislation actually resulted in a premium market for gold in this country, the resulting uncertainty as to the gold value of the dollar would seriously impair the usefulness of the International Monetary Fund as a mechanism to develop exchange stability, and the effects of the legislation would be inconsistent with the efforts of this country to promote exchange stability by participation in the Fund. By leading to greater international monetary instability, the proposed action might have serious adverse effects upon international trade.

"Moreover, free trade in gold under present circumstances would impair the ability of foreign monetary authorities to maintain confidence in, and stabilize the value of their national currencies, and thus might retard economic recovery in countries where this is a matter of vital concern to the United States. Demand for gold may be expected from countries where political uncertainties prevail and where the value of local currencies is in question. The use of dollar exchange in foreign countries to purchase gold would reduce the ability of those countries to purchase needed goods from us and would thus tend to increase the demands for foreign aid under the Economic Cooperation program. While countries which sell gold to the United States would be benefited if the market price for gold in this country rose above the present official price, the benefit would bear no relation to the need and, in general, the countries which would benefit the most are not those most in need of financial assistance by the United States.

"If the price of gold did not go to a premium, but stayed firmly at the official level, some of the foregoing dangers would be reduced, but the existence of a free gold market would cause serious impairment of the functioning of the government agencies responsible for monetary and credit policies. At present the centralization of gold in official hands in the United States permits those agencies to operate in accordance with the basic needs of the country, without the disturbing effects of the speculative movements of gold into and out of monetary reserves which would result from a free gold market. Demand for gold for hoarding is not a reasonable or satisfactory guide to general monetary policies. In periods of depression, as was the case for example in 1933, there may be a strong public demand for gold, the withdrawal of which from monetary reserves might call for restrictive monetary policies, although policies of monetary ease are required to combat deflationary pressures. On the other hand, in a period when prices of commodities and other earnings assets are tending generally to rise, there may be a shift toward such assets; demand for gold would tend to be small and a free gold market would not act to dampen this kind of price rise.

"In a period of more serious inflation, such as may develop during or after a war, there may be a strong demand for gold as some people lose confidence in the maintenance of official parities of currencies relative to gold or other currencies. Should a change then occur in such parities, a free market for gold would have benefited those who had deserted their country's currency and obtained gold, but meanwhile, the free availability of this gold would hinder the financing of the war or reconstruction on as sound a basis as possible.

"It may be concluded, therefore, that free circulation of gold is more likely to be a hindrance to the adoption of proper monetary policies than an aid in maintaining stable and prosperous economic conditions."

Chicago Bond Club To Hear Emil Schram

CHICAGO, ILL.—A luncheon of the Bond Club of Chicago will be held in the Illinois Room, Mezzanine Floor, of the La Salle Hotel on Monday, May 23, at 12:15 p.m. Guest speaker will be:

Emil Schram, President of the New York Stock Exchange. His subject will be: "Taxation With Reference to Equity Markets."

The Association of Stock Exchange Firms is having a meeting in Chicago on this date. Harold E. Goodbody, President of the Organization and its Board of Governors will attend the Bond Club meeting. In the afternoon Stock Brokers Associates, in cooperation with other La Salle Street organizations, are conducting a meeting at 3:00 p.m. at the Chicago Stock Exchange where Mr. Schram and Mr. Goodbody will make a special, off the record, address to the securities industry.

Guests for the luncheon are cordially invited at a fee of $3.50.

Reservations may be made with Alfred S. Wiltberger of Blyth & Co., Inc.

Adequate Bank Capital—Not a Serious Problem

By JOSEPH STAGG LAWRENCE*
Vice-President, Empire Trust Company, New York City

Quoting from 1947 Annual Report of Federal Deposit Insurance Corporation, in which inadequacy of bank capital is called a serious problem, Dr. Lawrence points out large holdings of U. S. Government obligations by banks provide sufficient margin of safety which bank capital provides for risk assets. Lays inability to increase bank capital to low bank earnings and criticizes FDIC ratios measuring extent of its risks. Claims its assessments on banks are excessive, and contends higher bank reserve requirements, used by Federal Reserve banks to acquire government securities, together with interest on Federal Reserve notes paid to the Treasury, constitutes a penalty on sound banking.

"The smallness of the capital equities of banks remains a serious problem. Nearly 4,000 insured banks had capital accounts, when examined in 1947, amounting to less than 5% of their assets; 54 had less than 2½%. At the close of 1947, total capital accounts of all commercial banks were only 6½% of their total assets, and less than 21% of their assets other than cash and United States Government obligations," says the **Annual Report of the Federal Deposit Insurance Corporation 1947.**

Jos. Stagg Lawrence

The FDIC goes on to note that the ratio of capital to assets on June 30, 1934 was 14.3%. During the intervening period "total capital accounts in all insured banks increased by $4,624 million while total assets increased by $121,655 million."

The Rest of the Story

The context should be completed.

During the 10-year period 1938-47 insured commercial banks paid out only 42.7% of their earnings in dividends and added 56.3% of earnings, $3,414 million, to capital account. The additions to capital account from the sale of stock were insignificant. Dividends during 1947 amounted to 3.3% of capital account.

During the same period the 30 industrial companies whose securities comprise the Dow-Jones Industrial Average paid out 62.1% of their earnings. Dividends amounted to 5.25% of market value in 1947 and 6.45% in 1948. Well-managed banks with highly liquid assets find their stocks quoted at substantial discounts from asset value. **This measures the growing indifference of investors to bank stocks and the difficulty in attracting the added capital which the FDIC implies is necessary to maintain capital margins at adequate levels.**

To a degree that is disturbing, astute individuals and larger institutional funds under competent professional management are reducing or liquidating entirely their position in bank stocks. Inquiry has brought forth this answer:

"The banking business is no longer attractive for an investor. The Federal Government has the power to immobilize large fractions of bank assets in the form of reserves which thereupon lose all their earning power. The rates which banks charge are subject to the dominant influence of the government in the money market. A bank is not able to ask for rates which properly reflect risk and the supply and demand of funds. Why should we commit our capital in an industry which is always subject to price control, government competition, and the sterilization of substantial portions of its assets?"

Character of Assets

The alleged disparity between the increase in capital accounts of insured banks and the growth of assets during the period 1934-47 ignores the character of the increase in these assets. Of the $121,655 million asset increase in this period, $85,036 million consisted of government securities or cash items. Another $5 billion represented loans covered by Federal Government guarantee or insurance. The decline in the ratio of capital account to assets from 14.3% to 6.6% is almost entirely the result of a disproportionate increase in holdings of cash and government securities. **It does not reflect a real deterioration in the margin of safety which bank capital provides for risk assets.**

In terms of direct interest, the proper service of clients and the welfare of the public, no group or agency can have a greater concern for the strength of the banking system than the institutions which compose that system. Only adequate earnings permitting accrual of capital and attraction of new equity money can assure such strength.

The diminishing appeal of bank stocks to investors—by no means confined to the great cities—carries a threat to the banking system and the structure of American society that goes far beyond the immediate gratification of bank stockholders. Diminished earnings reduce the amount of self-generated capital that may be plowed back into banking. The static or declining trend of earnings makes it difficult to obtain new capital from outside investors.

Stagnant capital will impair the ability of banks to provide the growing needs of American business. This inability to serve will have two consequences as immediate as they are clear. The first will be the provision of credit by the government to borrowers. The second will be the investment of capital by government in established banks in order to maintain those ratios of capital to risk assets which are allegedly necessary. There can be no doubt of the goal toward which these twin developments will lead.

Brakes on Capital Growth

What has retarded the growth of those "capital equities" to which the FDIC calls attention?

The first is the secular declining trend of money rates. These constitute the price which banks receive for the service they sell. During the period 1934-47 the wholesale index of the USBLS rose from 74.9 to 152.1, an increase of 103%. The general buying power of the dollar declined 40%. During the same period the average rates charged customers by banks in principal cities declined from 3.45% to 2.22% and the average yield on government securities from 3.18% to 1.95%.

No competent student believes that this decline was the result of natural market forces. **The dominant determinant of this decline in the rate received for bank services has been and continues to be, government policy.**

During the war and postwar period on the other hand bank costs have gone up. Income taxes increased from $50 million in 1941 to $302 million in 1947. Salaries and wages increased from $514 million to $947 million. In 1941 salaries and wages accounted for 42.3% of total operating expenses, in 1947 47.8%.

The absolute and relative increase in personnel costs has been due in part to a tight labor market, in part to a rise in the cost of living and **in part to deliberate government policy in promoting rising labor income.**

It is against this background of declining rates of return for banking service and rising costs that the burden of FDIC assessments must be weighed. These assessments totaled $114 million in 1947. They were equal to 13.1% of the $870 million of net profits after taxes of insured commercial and mutual savings banks and amounted approximately to 1% of the total capital funds of all insured banks.

The assessments paid to the FDIC in 1947 were roughly equal to one-third the dividend disbursements to those who own the insured banks.

Actual Losses and Risk

What is the relation of FDIC assessments to actual losses and risk?

In 1947 total deposit insurance losses and expenses amounted to one-seventh of 1% of deposit insurance assessments. Here is an insurance business in which the premium is equal to 700 times the annual loss. Private enterprise could hardly do worse.

In 1947 total expenses of the FDIC including the administrative expenses and losses were covered 20 times by assessments.

The income of the FDIC, **aside from assessments in 1947,** amounted to **$43.3 million.** This should be compared to **total** deposit insurance losses for the **entire period 1933-47** amounting to **$26.8 million. The FDIC** at the end of **1948** had accumulated a fund of **more than $1.1 billion.** This covered **all the losses since organization of the FDIC 41 times.** According to the FDIC total losses borne by depositors in commercial banks closed because of financial difficulties during the entire period 1865 to 1940 amounted to $2,230 million.

The FDIC already has on hand an accumulated fund equal approximately to half the total losses sustained in this period of 75 years. The FDIC is further assured by statute of power to borrow $3 billion from the Federal Government in an emergency. Thus the aggregate of accumulated fund and borrowing power gives the FDIC an **established capacity** to meet losses equal to twice the total of losses incurred during three-quarters of a century of checkered American financial history, including wars, inflations, depressions, booms and extended financial and monetary experimentation.

This would seem adequate provision for anything within the widest possible limits of actuarial probability.

FDIC Estimate of Risk

What estimate does the FDIC itself place upon the risk?

"During the examination made in 1947 examiners found that less than 1% of the assets of insured commercial banks were below the standards set for bank investments."—**Annual Report of**

(Continued on page 32)

*A report given by Dr. Lawrence at Spring Meeting of the Economic Council of the American Bankers Association, French Lick Springs, Ind., April 26, 1949.

Public Utility Securities

By OWEN ELY

Middle South Utilities

The dissolution plan of Electric Power & Light was discussed in this column last week. The stocks of United Gas and Middle South Utilities will be distributed to stockholders when the plan is consummated. Since Middle South is a new sub-holding company just being set up, a further description may be of interest.

The stock is currently traded over-counter "when distributed" at around 15½. The company will own the common stocks of the following companies: Arkansas Power & Light, Louisiana Power & Light, Mississippi Power & Light and New Orleans Public Service (there is a minority interest of about 5% in the latter). Before the title "Middle South" was selected the proposed company was nicknamed ALMNO, using the first initials of the operating company names.

Capitalization of Middle South will consist only of common stock, and it was originally proposed to issue 4,400,000 shares. However, this was based on the assumption that Electric Power & Light would invest only $10 million cash in the Middle South system. It now appears likely that the amount will be increased to $18.5 million. Assuming that the additional money is capitalized at a price around 17, this would mean issuance of an additional 500,000 shares, bringing the total to 4,900,000. However, the exact number of shares will be worked out in conferences between Electric Power & Light and the SEC and it is assumed that a price will be fixed which will not dilute the earnings.

Following are the system earnings for the 12 months ended March 31 (the estimated expenses and taxes of the holding company are, of course, subject to adjustment):

	Net Income after Preferred Div. and Minority Interest —(000's Omitted)— 1949	1948	Percent Gain
Arkansas Power & Light	$3,092	$2,527	22%
New Orleans Public Service	*2,622	*2,292	14
Mississippi Power & Light	1,918	1,441	33
Louisiana Power & Light	1,789	1,564	14
Total	$9,421	$7,824	20%
Deduct estimated holding company expenses and taxes	800	800	--
	$8,621	$7,024	23%
Amount per share (4,900,000 shares)	$1.76	$1.43	23%

*After deduction of minority interest.

As Truslow Hyde of Josephthal & Co. has pointed out in that company's study, earnings reports of the subsidiaries for the calendar year 1948 contain some special items which might be of a nonrecurring character. Arkansas Power & Light operates under a rate formula whereby the Commission permits the company to earn 6% on the rate base (approximately original cost). The company's earnings last year were affected by a sharp increase in depreciation accruals resulting from an order of the State Commission. Hence the Commission permitted them to take $1,089,000 out of earnings reserve (previously set up out of earnings, considered surplus under the rate formula) and reinstate this as revenues. This amount, after adjustment for Federal income taxes, would amount to about 14 cents a share on Middle South stock. However, there are several reasons why it can apparently be disregarded: (1) Arkansas earnings this year are running comfortably above last year's (January net income was up 27%, February 12% and March 1%). (2) The company has a very good summer load because of air conditioning, water-pumping for the rice fields, cotton-ginning, etc., and this year's load is expected to make a favorable showing. (3) New Orleans Public Service last year had a special charge which is presumably nonrecurring—$600,000 reserve for civic improvements. It is understood that this reflected a reserve for some special maintenance work.

It is estimated that Middle South may "take down" as parent company earnings about $1.20 or $1.25, which would be ample to sustain the proposed $1.10 dividend. Considering the fact that with minor exceptions the Middle South companies produce electricity by burning natural gas, and are protected by contracts running about eight to nine years (after which prices for gas will increase rather sharply) the system enjoys a good advantage over coal-burning companies, similar to that enjoyed by Central & South West, Southwestern Public Service and some other southern companies. In view of the growth potential it would seem that the stock, when seasoned, should sell in line with other "integrated" holding company equities. Following are some comparisons:

	Recent Price About	Indic. Div. Rate $	Approximate Yield %	Share Earnings Recent Period $	Previous Period $	Increase %	Price Earns. Ratio
Middle South Utils.	†15½	*1.10	*7.1	*1.76	*1.43	23	*8.8
American Gas & Elec.	44	*2.50	5.7	4.49	4.18	8	9.8
Central & South West	12	0.80	6.7	1.39	1.25	11	8.7
New England El. Sys.	10	0.80	8.0	1.23	1.18	5	8.0
New England G. & E.	12	0.80	6.7	1.44	1.20	20	8.3

*Estimated. †When distributed.

D. Dean McCormick Dir.

CHICAGO, ILL.—D. Dean McCormick, partner of Kebbon, McCormick & Co., becomes a director of Glass Fibers, Inc., Waterville, Ohio, to succeed his late partner, Richard A. Kebbon. Mr. McCormick is a past Governor of the Investment Bankers Association of America and the Chicago Stock Exchange and a past President of The Bond Club of Chicago.

Final Payment on Panama Interest Coupons of 1943

The National City Bank of New York, as fiscal agent, is notifying holders of Republic of Panama 35-year 5% external secured sinking fund gold bonds, series A, due May 15, 1963 that there is available at the bank final payment on account of interest represented by the May 15, 1943 coupon and partial payment on account of the Nov. 15, 1943 coupons. Distribution will be made at the office of the bank.

McCabe Upholds Broader Fed. Reserve Powers

Chairman of Federal Reserve Board tells Senate Banking and Currency Committee, despite easing of credit situation and relaxation of controls, greater "elbow room is essential to an institution performing central bank functions." Defends price support of government bonds, and asks for authority to impose reserve requirements on all insured commercial banks.

Thomas B. McCabe, Chairman of the Board of Governors of the Federal Reserve System, appeared before the Senate Banking and Currency Committee on May 11 to support a continuation of Federal Reserve supplemental credit controls granted by the last Congress and a further broadening of Federal Reserve powers. In his testimony, Chairman McCabe stated:

Thomas B. McCabe

"We do not wish to exaggerate the role which monetary and credit policy has played in the period from which we are now emerging. It is fair to say, however, that in the last year of upsurge especially, it exerted some restraining influence. We think we may fairly say that we used the powers which Congress entrusted to us flexibly, and that we have made an earnest effort to take into account every relevant fact and circumstance, including the hardships or inconveniences imposed on those subject to regulations and requirements.

"We can all take satisfaction from the fact that the many banks of the country are on a more secure foundation now than ever before in our history. The bankers themselves, as a result of their voluntary efforts to restrict loans in the face of strong inflationary pressures, deserve a great deal of the credit for this condition. At the same time, we must recognize that our existing banking strength is in part the product of national economic and financial developments since the mid-thirties. Today our commercial banks, with about 50% of their total loans and investments in government securities largely acquired as a result of war finance, enjoy an exceptional unprecedented liquidity. Their capital accounts, while not yet at a desired level in relation to deposit growth since prewar years, are over 50% greater than before the war, representing in large part a steady plowing back of earnings.

"Not only do our many unit banks possess unusual strength, but the Federal Reserve System, as a result of the Banking Act of 1935, is in far better position than ever before to assist member banks, and through them all banks. Its greater experience enhances its ability to meet the credit needs of a time when surpluses rather than scarcities prevail and private enterprise requires encouragements rather than restraints.

"In his Economic Report to the Congress last January the President pointed out that the monetary authorities should at all times be in a position to carry out their traditional function of exerting effective restraint upon excessive credit expansion in an inflationary period and conversely of easing credit conditions in a time of deflationary pressures. He asked that Congress provide continuing authority to the Board to require banks to hold supplemental reserves up to the limit we had requested in August, 10% against demand deposits and 4% against time deposits. He stated that this authority should not be confined to member banks, but should be applicable to all insured banks. The President asked that the authority for the regulation of consumer instalment credit be continued in order to exert a stabilizing influence on the economy. The President made these requests after a most careful and exhaustive survey of the situation with the Board and the requests had the unanimous approval of the Board.

"That report was prepared and submitted nearly four months ago, four months in which inflationary pressures have abruptly abated and the economic situation generally has changed in many respects. In view of these developments I come here today with somewhat changed recommendations. We now feel that we will have adequate powers for the period immediately ahead if the Congress will extend the two temporarily granted authorities voted by the special session last August and make the authority to increase reserve requirements applicable to all insured commercial banks.

"Elbow room is essential to an institution such as the Federal Reserve System performing central banking functions. Congress has made the System responsible for the maintenance of sound credit conditions in this country in the interest of high-level economic stability. To carry out that responsibility we must always be in a position to operate flexibly, counteracting trends as they set in, either toward inflation or deflation. We must take into account how much latitude exists to move in either direction from the position that seems correct for the near future. Viewed in this perspective, the present powers of the Federal Reserve System are ample for our needs during a downward trend. Our powers in the other direction, however, are limited. So long as we have the huge Federal debt to support we cannot count on use either of the discount rate or operations in the open market to exert the same degree of influence that they did before the war. To an extent hitherto not contemplated, we are forced to place greater reliance on reserve requirements as a defense against inflationary trends. We are at the moment, however, very close to the limit of that power.

"We come before you, therefore, to ask you to maintain what we regard as the minimum operating leeway that is needed in view of our responsibilities. We do not plan to uses those powers now. In fact, reserve requirements may be further reduced if present trends continue. But we do want the powers in case an emergency situation should arise. The basic concept underlying the Federal Reserve System is that it should have at all times residual power to deal flexibly with changing situations, not that it should come to Congress whenever an emergency exists. Looking backward at the situation, I feel it would have been better for the economy if we had been in a position earlier to restrain consumer instalment credit expansion and to increase reserve requirements.

"You understand, I am sure, that the ability of the Federal Reserve System to influence credit developments is always subject to limitations, even when our residual authorities give us much greater elbow room than we have at present. In large part these limitations arise out of the complex organization of finance in a highly developed country such as ours. In part they reflect the many different types of financial activities that are carried on within the Government itself.

"As members of this Committee realize, the existence of our huge public debt and the need to assure orderly conditions in the government bond market have greatly complicated the problems faced by the System in adapting policies to adjust the supply of money and credit to the needs of a stable, high-employment economy. At the present time our commercial banks hold about $60 billion of marketable government debt securities. Non bank public investors hold an additional $70 billion. Whenever any security which is a part of this $130 billion is bought by the Federal Reserve there is an increase in bank reserves and the reserve so created then becomes the potential basis of a multiple credit expansion.

"Of course, the Federal Reserve is not always involved. There may be a balance of buyers and sellers in the market and orderly conditions may exist without Federal Reserve participation. But if there are more sellers than buyers at any time, the Federal Reserve must enter the market. It thereby makes reserves available to the banking system regardless of whether such reserves are needed for the stability of the economy. If the money supply (deposits plus currency) is already ample in relation to the goods and services for which it can be exchanged, the further increase through bank credit expansion on the basis of the new bank reserves serves mainly to exert inflationary pressures. The initiative in all such operations rests with the market and not with the Federal Reserve. Thus the System cannot always control the availability of bank reserves. It should accordingly be equipped to vary the required amount of reserves so as to neutralize the indirect effects of its government security transactions.

"I come now to our most controversial request. The nature of the problem compels us to plead that the authority in respect to supplemental reserves be made applicable to all insured commercial banks, rather than only to members of the Federal Reserve System. Failure to include all such banks will seriously impair the effectiveness of national monetary policy in a critical period. It will work to the detriment of our whole banking structure at a time when the situation calls for consistency and uniformity in national monetary policy. No category of commercial banking should be exempt to that call.

"We are not suggesting that the nonmember insured commercial banks carry the same reserves as the member banks. In normal periods they would be unaffected by this legislation. We are proposing only that to the extent *supplemental* or *increased* reserves may be required under the provisions of this Act the percentage amounts would be the same for both member and nonmember insured commercial banks. Under our proposal this would mean at the very maximum an increase over existing State requirements of no more than 4% on demand deposits and 1½% on time deposits.

"With a huge public debt it would be wholly unrealistic to have no means of steadying or supporting the market. We have that means in the Federal Open Market Committee. Without it no one could be sure of a ready market or of the rates that might prevail."

In support of his requests for continued control of consumer credit, Mr. McCabe argued:

"As you know, this type of credit is associated particularly with the sale of what are known as consumer durable goods, including automobiles, refrigerators, radio and television sets, washing

machines, furniture and similar articles which have become so much a part of our American standard of living that very large sections of our economy depend on their production and sale. Because the prospective buyer of these articles can exercise so much latitude in both the selection and time of his purchase, sales are subject to wide fluctuation. The credit related directly or indirectly to their ownership is consequently extremely volatile.

"Appropriate regulation of instalment credit can be especially helpful during times when more purchasing power serves only to bid up prices. In periods when production and demand approach a balance, such regulation can be relaxed considerably. This the Board has done twice recently in respect to its present authority, and the Board will have no hesitancy in suspending any part or all of the regulation should conditions make such action desirable. The important thing is that the power be at hand to exercise restraint when necessary to maintain sound credit conditions."

Robert T. Cass Mgr. of Floyd Allen Dept.

LOS ANGELES, CAL.—Robert T. Cass will become associated with Floyd A. Allen & Co., Inc.,

Robert T. Cass

650 South Grand Avenue, as Manager of the Trading Department on June 1. Mr. Cass was formerly trading manager for Gross, Rogers & Co. Prior thereto he was with Morton Seidel & Co. and Quincy Cass Associates.

IBA Meeting to Have Special Forums

CHICAGO, ILL.—The Board of Governors of the Investment Bankers Association of America will hold its 136th meeting May 18 to 21 at The Greenbrier, White Sulphur Springs, West Virginia.

In addition to the customary interim reports by national IBA committees, a Merchandising Forum, under the leadership of Milton S. Trost of Stein Bros. & Boyce, Louisville, will be a feature of the Spring Meeting, according to Hal H. Dewar of Dewar, Robertson & Pancoast, San Antonio, President of the Association. Discussion leaders will include:

Ewing T. Boles, the Ohio Co., Columbus; George W. Davis, Davis, Skaggs & Co., San Francisco; Robert A. Magowan, Merrill Lynch, Pierce, Fenner & Beane, New York; Reginald W. Pressprich Jr., R. W. Pressprich & Co., New York; Norman P. Smith, Merrill Lynch, Pierce, Fenner & Beane, New York; Edward H. York, Jr., Drexel & Co., Philadelphia.

Major Forum topics are: Salesmanship, Advertising, and New Methods and New Sales Ideas.

Clinton T. Revere Dies

Clinton T. Revere, partner in Laird, Bissell & Meeds, New York City, died on May 8.

Sproul Backs Instalment Credit Controls

President of Federal Reserve Bank of New York tells Senate Banking and Currency Committee experience proves qualitative as well as quantitative controls are required by Federal Reserve Board. Also favors changing cash reserve requirements by administrative rather than by Congressional action.

In a statement presented to the Senate Banking and Currency Committee on May 11, Allan Sproul, President of the Federal Reserve Bank of New York, expressed himself in favor of continuing the temporary and supplementary controls on instalment credit and on bank reserve requirements set up by the last Congress.

Allan Sproul

The text of Mr. Sproul's statement follows:

"You have asked me to testify on Joint Resolution 87 to extend the authority of the Board of Governors of the Federal Reserve System to exercise consumer credit controls until June 30, 1951, and on S. 1775 to provide supplemental reserve requirements for all insured commercial banks. I am in favor of the first of these proposals and, with qualifications, in favor of the second.

"The question of whether control of consumer instalment credit should be extended is part of a much broader question, namely, what you expect of credit control, as a whole, in terms of its contribution to economic stability at high levels of production and employment. I take it as established American policy that a principal means of government intervention in the economic processes of the country is the administration of broad credit powers by the Federal Reserve System. By this means a pervasive influence may be brought to bear on our economy, without intrusion upon specific transactions between individuals, which is likely to be the consequence of more detailed physical controls, and which could spell the end of democratic capitalism as we have known it.

"When the Federal Reserve System was established 35 years ago, it was generally believed that this influence could best be brought to bear through overall quantitative credit controls. Such controls exercised by reason of our powers to lend or withhold reserve funds, to or from the banks of the country, and to raise or lower the price of our accommodation were the principal instruments of credit administration. They still are, although we now use open market operations in government securities and, at times, changes in reserve requirements, more largely than discounts and re-discounts, to make our policies effective.

"Experience has taught us, however, that such quantitative credit controls need to be supplemented by qualitative credit controls in certain areas. A specific example is the experience of the decade of the twenties. We then found that even a vigorous use of general instruments of credit control might not prevent excessive expansion of credit in particular areas, and that this expansion might be dangerous to the whole economy. That experience led to those provisions of the Securities and Exchange Act which gave the Board of Governors of the Federal Reserve System power to regulate margin requirements on security loans. I do not think you would want to revoke that power. At the present moment, I believe we can all be thankful that there has not been unrestrained speculation in securities during the postwar years, and that we do not face the possibility of the liquidation of several billion dollars of credit in that area, at a time when deflationary tendencies are already in the ascendant.

"Another specific example is in the field of consumer instalment credit, with which you are now concerned. Here I must draw more on theory than on practice, because I do not think the war years were a fair test, and because the experience of the past year, since the power of the Federal Reserve System to control consumer instalment credit was revived, is too brief to be entirely convincing.

"I think it is generally admitted, however, that instability in our national economy may well be increased by our ability and propensity to purchase consumer durable goods on credit. In times of maximum production and high employment, such as 1948, an unrestrained expansion of consumer instalment credit can and will accentuate inflationary tendencies. It cannot increase production, but it can contribute to a spiral of price and wage increases. And in a period such as we are now going through, a swollen volume of consumer instalment credit, which has to be liquidated, might well accentuate deflationary tendencies. With some slackening of business and some reduction of employment, the diversion of a large volume of current income to the repayment of old debts, could dangerously reduce currently available consumer purchasing power. I do not wish to be understood as condemning consumer instalment credit; it is a necessary part of our financial machinery. But it operates in an area where special restraint may be necessary. In a sense, it is marginal credit in a particularly volatile part of our economy, and some measure of control over it is desirable.

"Fortunately, it seems to me, that control can be exercised in a way which is consistent with our economic and governmental system, and which is administratively practical. The terms of the control can be made clear enough and precise enough to do the job, without interfering too much as between buyer and seller, and without trespassing upon individual determinations as to who is to get credit and who isn't. The concern of such regulation is the aggregate volume of credit in use in this field, as related to the general state of our economy, not the credit worthiness of the individual buyer or borrower nor the trade practices of the individual seller or creditor.

"I have cited two specific examples of the need for qualitative credit controls to supplement our quantitative control powers. There is a further general argument for these powers, which may be more persuasive than either of the other two, at least to those who rebel against all special controls. Our general control powers have been greatly weakened in recent years, by the emergence of a tremendous public debt, and the obstacle which that has placed in the way of a vigorous use of our general control powers. I am not going to argue here the case for our support of the government security market. I think that support has had the approval of the Congress and the country. Otherwise you would have done something about it. But it has interfered seriously, during the recent past, with the use of the discount rate, open market operations, and even changes in reserve requirements—which are the ordinary means of quantitative credit control—and it may do so again. If the scope of action open to the Federal Reserve System is to be narrowed by public debt considerations, and if effective credit policy is to be possible, we shall need to have the help of those supplemental instruments of control which are administratively feasible, and not repugnant to our economic system.

"I believe the control of consumer instalment credit, in the terms of this legislation, is such an instrument. I would prefer, in principle, that the authority granted to the Federal Reserve System to control such credit be made permanent. I recognize, however, that mine may not be the generally accepted view, and I can see advantages in a Congressional review of such a new administrative power, at a prescribed time. The limit of two years which you have fixed is, I should say, the minimum to permit administrative development, without the handicap of undesirable reaction, by those controlled, to the possibility of early expiration of the authority.

"When I come to S. 1775, relating to reserve requirements, I must repeat what I said about this legislation when it was being considered last year. I am not so clear about it as I am about extension of our powers to control consumer instalment credit. Personally, I believe that as a means of combatting short-run or cyclical inflationary or deflationary pressures, increases or decreases in reserve requirements are, at best, pretty clumsy for effective and equitable use. At worst, or so long as the Federal Reserve System continues to bear responsibility for support of the government security market at something like fixed prices, changes in reserve requirements are pretty futile as an anti-inflationary weapon, and not much better as an anti-deflationary weapon.

"On balance, I come out in favor of the continuance of the present authority with respect to supplementing reserve requirements for three reasons. First, I believe that if the power is a clumsy one for the Federal Reserve System to use, it is an even clumsier power for the Congress to use. In other words, I do not think a reduction in present reserve requirements should be brought about by Congressional refusal to extend this authority. It should be brought about, when appropriate, by administrative action. If such action should be taken before June 30, of course, this argument would fall.

"My second reason is that there are occasions when an increase in reserve requirements may be an appropriate method of combatting a long-term trend as distinguished from short-term or cyclical fluctuations. Such a long-term trend might be a renewed large inflow of gold to this country, such as occurred during the thirties when excess reserves of the banks were driven up to several billion dollars. You may remember that, in January, 1941, in order to try to meet this situation, the Board of Governors of the Federal Reserve System, the Federal Advisory Council, and the Presidents of the Federal Reserve Banks, jointly urged that statutory reserve requirements for demand deposits be increased to 26% (central reserve cities), 20% (reserve cities) and 14% (country banks) and 6% for time deposits; and that they further urged that the Federal Open Market Committee be empowered to increase reserve requirements to not more than double these percentages. Admittedly the situation which existed then does not exist now—the member banks do not have several billion dollars of excess reserves, and we do have large holdings of government securities in the System portfolio which could be sold to offset a gold inflow. But it is not inconceivable that, at some future time, some similar need might arise.

"Finally, I have a more fundamental bias toward the continuance of this authority. I again repeat something I said at your hearings last August.

"'There may well be reasons taking the long view, for an increase in the reserve requirements of the commercial banks of the country, and of the limits within which those requirements can be varied by the Federal Reserve System. I am inclined to believe that this could be a progressive step in our monetary-banking organization, especially if there should continue to be a persistent and substantial inflow of gold. With a modern central banking system operating in a highly developed deposit banking system, and with a decreasing reliance upon gold, much of the need for low reserve requirements and consequent economizing in the provision of money by commercial banks has disappeared. In these circumstances there may well be a balance of advantage in higher reserve requirements, as a means of reducing the dangerous expansibility and, at times, destructive contractability of a money supply based on low reserve ratios of commercial banks. There may be too great an element of leverage in our present system to be left at the disposal of 14,000 banks.'

"This is a long-term improvement, not a short-term device, however. It suggests a general overhauling of the present antiquated system of assessing reserves, not an immediate credit control program.

"My suggestion, therefore, would be that you continue the present powers of the Federal Reserve System, as contemlated in S. 1775, leaving it to administrative action to bring about whatever reductions in reserve requirements the present business and credit situation seems to require. Such a course can do no present harm, as I see it, may have some future usefulness, and should fit into the longer range consideration of the problem of reserve requirements, which I have advocated. The latter, I urge most strongly. I think it is high time that we shifted the basis of reserve classification from type of city to type of deposit. This is particularly so, if we are now going to bring within the apparatus of nationally fixed reserve requirements, thousands of insured nonmember banks. It would be too bad to perpetuate for long, with them, a reserve classification which was outdated at least as soon as the Federal Reserve System was established 35 years ago.

"When I make this statement, I assume that you are going to include nonmember insured banks in this legislation if you adopt it. It should be made applicable to such banks, not merely to members of the Federal Reserve System, if it is to be capable of having its maximum effect, if it is to be fair to the banks which are members of the System, and if it is to protect the System against unwarranted withdrawals from its voluntary membership. Whenever action is taken under this authority, you may be sure that it is in terms of the national situation and national needs. That means that all insured banks should feel its restraints, when restraint is necessary, and should have the encouragement of its relaxation, when relaxation is in order. That means that whatever temporary sacrifices of earnings and profits its use may entail, should be borne by all of the banks, and by the whole national community, which are the beneficiaries of the action taken. If the insured nonmember banks are now to be permitted to continue to avoid this small share in national credit policy, I would let the legislation lapse, and await the outcome of the more fundamental study of reserve requirements which I have suggested."

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Michael Pescatello has been made Investment Advisory Officer of the First National Bank of New York City. He was formerly Vice-President and Investment Officer of the Central Trust Company, Cincinnati, O. Prior to going to Cincinnati, Mr. Pescatello was Investment Officer and Assistant Treasurer of the Carnegie Corp. of New York City. He has written numerous articles for the "Chronicle" and other publications and is currently working on a book on modern economic problems which will be published soon.

Michael Pescatello

* * *

At a meeting of the Board of Directors of **The National City Bank of New York**, held May 17, Alexander E. Pinkus and Girault T. Thach were appointed Assistant Comptroller. Mr. Pinkus was formerly an Assistant Cashier, and Mr. Thach has been Chief Inspector of National City's Foreign Branches.

David A. Stretch has been elected to the Board of Trustees of the **Title Guarantee and Trust Company, New York**, it was announced on May 17 by Barnard Townsend, President of the bank.

With its 75,000 specimens of money spanning almost 5,000 years, from the ring money of ancient Egypt to 1949 notes of the new Republic of Burma, the **Chase National Bank Collection of Moneys of the World** on May 13 marked its 20th anniversary as a public exhibit at 43 Cedar Street, New York City.

Among the largest and most comprehensive displays of its kind, the collection today represents nearly every political and geographic subdivision of the world, and nearly every medium of exchange employed by mankind in history. It has attracted some 220,000 visitors since it was opened to the public May 13, 1929.

The collection was begun privately in 1880 by the well-known numismatist, Farran Zerbe, and had grown to 40,000 items when the Chase acquired it from him in 1928. Mr. Zerbe was the curator until his retirement in 1939, when he was succeeded by Vernon L. Brown.

The exhibit includes ancient, modern and historical coins, notes and checks, odd and curious moneys, and a great variety of commodity moneys, such as woodpecker scalps and tiger claws.

Among the thousands of items on display are the Biblical "tribute penny" and "widow's mite"; the Pine Tree shilling of colonial Massachusetts; the Fugio Cent, first coin authorized by the United States; "Pieces of Eight" of Spanish Main renown; the wooden nickel of Blaine, Wash.; the buckskin "One Buck" of Enterprise, Mich.; the celebrated 1804 silver dollar; a copy of Henry Ford's check for one cent; a check for $225,000,000 issued by the Metropolitan Life Insurance Co. for the purchase of U. S. Treasury bonds in 1943, largest check ever drawn on the Chase National Bank, and the 100 quintillion pengo inflation note of Hungary issued in 1946.

Notable among recent acquisitions are 1949 coins of Great Britain, which omit the previous reference to the King as Emperor of India.

The museum assembles special exhibits and regular traveling exhibits for correspondent banks, offers tours of the collection for various school and college groups, and provides speakers for club and educational groups.

* * *

Guaranty Trust Company of New York announces the appointment of Fernand L. G. Demol as Assistant Treasurer and James Charles Chandler as Assistant Secretary, at its Brussels office.

* * *

Harvey D. Gibson, President of **Manufacturers Trust Company, New York**, announced that Philip H. Milner, who is in charge of the bank's office at 386 Fourth Avenue, has been promoted to Assistant Vice-President.

Mr. Milner came to Manufacturers Trust Company 15 years ago and was appointed Assistant Secretary in 1946.

* * *

Ninety (90) years ago, on May 18, the **Union Dime Savings Bank, New York City**, opened its door for business in "Old New York" in a small building at the corner of Canal and Varick Streets.

Ten cents went a long way in those days, and even would open a savings account at Union Dime. Perhaps that was one reason for the bank's being known then as the "Children's Bank." At the end of the first year the bank boasted 3,074 depositors, with deposits of $201,000.

In 1926 the $100,000,000 mark in deposits was passed, and now—90 years after the bank opened for business — deposits aggregate $232,000,000, and the number of depositors has grown to more than 143,000.

During these 90 years the Union Dime has weathered periods of destruction and depression — our own Civil War, two World Wars, and several financial panics. It has paid dividends regularly each year—and at the board meeting on May 18 the trustees declared a dividend for this period at the rate of 2% per year.

* * *

The **Dry Dock Savings Institute, New York**, at a meeting of directors, held on May 17, elected William B. Given, Jr. President and Director of the American Brake Shoe Co., a Trustee. Mr. Thurman Lee, President of the Dry Dock Institute, said that Mr. Given makes the sixteenth director of the bank.

* * *

Adam Sneider, Jr., President of the **Roosevelt Savings Bank, Brooklyn, N. Y.**, announced on May 16 the election of William J. Evans as a Trustee.

* * *

The **Whitman National Bank, Whitman, Mass.**, with a capital of $50,000 went into voluntary liquidation effective May 2 and was absorbed by the **Home National Bank of Brockton, Mass.**, it is learned from the May 9 issue of the Bulletin of the Office of the Comptroller of the Currency.

* * *

Edwin K. Daly was elected on May 13 a director of **Tradesmens National Bank and Trust Company, Philadelphia, Pa.**

* * *

The National Bank of America in Pittsburgh, Pa., with a capital of $250,000, was voluntarily liquidated effective April 29 and was absorbed by the **Commonwealth Trust Company of Pittsburgh, Pa.**, according to the May 9 Bulletin of the Office of the Comptroller of the Currency.

* * *

The First National Bank of Barnesboro, Pa., has increased its common capital stock effective May 2 from $150,000 to $200,000 by sale of new stock, according to the May 9 Bulletin of the Office of the Comptroller of the Currency.

* * *

It is learned from the May 9 Bulletin of the Office of the Comptroller of the Currency that **The Ensworth National Bank of Waterford, Pa.**, with a capital of $25,000, was voluntarily liquidated effective April 30 and was absorbed by **The First National Bank of Erie, Pa.**

* * *

More than 400 Maryland bankers participated in the 53rd convention of the **Maryland Bankers Association** in Atlantic City May 8-10.

At its concluding session on May 10, the convention elected the following 1949-50 officers: President, W. R. Huey (President, First National Bank, Chestertown, Md.); Vice-President, Harvey E. Emmart, Vice - President - Cashier, Baltimore National Bank, Baltimore, Md.); Treasurer, Charles R. Arnold (Cashier, Birnie Trust Company, Taneytown, Md.); Secretary, Matthias F. Reese (Secretary-Manager, Baltimore Clearing House, Baltimore, Md.); Assistant Secretary, William B. Elliott (Assistant Manager, Baltimore Clearing House, Baltimore, Md.).

* * *

Thomas C. Boushall, President of **The Bank of Virginia, Richmond, Va.**, on May 16 announced the appointment of Rowland A. Radford of Atlanta, Ga., as Vice-President in charge of the bank's operations division, effective June 1.

* * *

Richard C. Huelsman, Controller of the **Central National Bank of Cleveland, Ohio**, has been made a Vice-President of the bank, according to the New York "Times" of May 16.

* * *

George C. Brainard, Chairman of the board of directors of the **Federal Reserve Bank of Cleveland**, announced the election of Charles L. Austin, Executive Vice-President of the Jones & Laughlin Steel Corp., Pittsburgh, Pa., to the board of directors of the bank.

Mr. Austin was the unanimous choice of the larger banks of the Fourth Federal Reserve District to fill the unexpired term ending Dec. 31, 1951, of the late Lawrence H. Lund, a class B director of the Federal Reserve Bank. Mr. Lund, who was Vice-President and Treasurer of the Westinghouse Electric Corp., died March 14.

* * *

State Auditor Benjamin O. Cooper announced approval had been granted to the **Albon State Bank of De Soto, Ill.**, to increase its capital stock from $15,000 to $25,000. The Auditor said that the bank was organized Dec. 21, 1920. The increase, he said, was voted by the stockholders and represents a capital stock dividend from accumulated earnings.

Officers of the bank are George N. Albon, Sr., President, and Arthur Albon, Cashier.

* * *

Election of Ward Schultz as a Vice-President of the **City Bank, Detroit, Mich.**, was announced on May 12 by Joseph F. Verhelle, President.

* * *

The board of directors of the **Crocker First National Bank of San Francisco, Calif.**, at its regular monthly meeting held on May 12, approved the calling of a special meeting of stockholders for Thursday, June 9, 1949, for the purpose of adopting an amendment to the Articles of Association, whereby the capital stock will be split 4-for-1. Par value of the present stock is now $100. Under this proposed plan the stock will be reduced to $25 par value per share. There are presently outstanding 60,000 shares of $100 par value capital stock which when split will become 240,000 shares with a par value of $25 per share.

If this plan is approved by the shareholders, W. W. Crocker, President, will recommend to the board of directors that the dividend rate be increased from $14 to $16 per annum, which will place the new stock on a $4 annual basis.

Notice of the special meeting and proxies will be mailed to the stockholders shortly.

The capital of the bank will remain unchanged at $6,000,000.

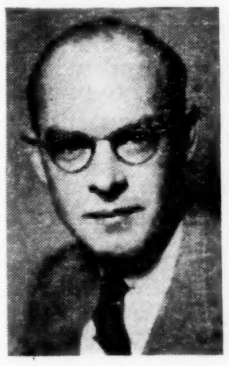
* * *

At a meeting of the board of directors of **The Bank of Nova Scotia, Toronto, Canada**, on May 10, H. D. Burns, President since Oct. 30, 1945, was elected Chairman of the board. H. L. Enman, who succeeded Mr. Burns as General Manager in 1945, was elected President. The board appointed C. Sydney Frost, who has been an Assistant General Manager for the past two years, to be General Manager.

Outlines Basis for Capital Investment Abroad

August Maffry, Vice-President of Irving Trust Company, as spokesman for International Chamber of Commerce, stresses "favorable political climate" as key to implementation of President Truman's "bold new program." Scores unfriendly attitude of some countries to foreign private investment and urges bilateral accords assuring American capital freedom to carry on legitimate activities without maze of artificial regulations.

Appearing as a spokesman for the International Chamber of Commerce before the Economic and Employment Commission of the United Nations at Lake Success on May 12, August Maffry, Vice-President of the Irving Trust Company of New York, outlined a general policy for implementing and financing the "bold new program" of President Truman for use of American capital and technique in the development of backward areas. According to Mr. Maffry:



August Maffry

"In all of the discussions of the problem of private foreign investment and of economic development in business circles, the whole emphasis is on the creation of a favorable 'climate' for private foreign investment — a 'climate' which will attract equity capital—venture capital. This favorable 'climate' for private foreign investment involves among other things relief from discriminatory treatment of foreign investments. It involves relief from the threat of arbitrary seizure or confiscation of private investments without adequate and effective compensation. It involves relief from burdensome taxation, particularly double taxation of foreign investments. It involves assurances regarding the transfer of earnings, if any, and the orderly repatriation of capital, if desired. Such a favorable 'climate' for private foreign investment can be created, as I have already indicated, either through multilateral agreement, bilateral agreements between capital-importing and capital-exporting countries or through unilateral action by countries seeking outside assistance in the form of technical knowledge and capital.

"Because of the unfriendly attitude of some countries toward private investment, the private business community is disposed to think that this is not an auspicious time to seek multilateral agreement to a Code of Fair Treatment for Foreign Investments. It is inclined to think that economic development could be pushed forward much more rapidly under present circumstances by bilateral or unilateral action. With reference to unilateral action, I should like to mention in passing a statement made by the Prime Minister of India in the Constituent Assembly on April 7, 1949. This statement by Nehru was intended to inspire confidence among potential foreign investors in investment possibilities in India and I dare say the statement will go far to achieve that purpose.

"As I say, the emphasis in the private business community is on a favorable 'climate' for private foreign investment. There is much less emphasis, I believe, on the various financial expedients which have been put forward for stimulating private international investment, because unless there is a favorable 'climate' for such investment, no mere financial expedients will, in the view of the private business community, stimulate any large or sustained flow of private capital between countries. . . .

"Under conditions which prevail today, it is the private investor who needs protection against arbitrary acts of government and not the reverse. The private business community recognizes the indispensable role of government in these matters. It believes, however, that the further development of both the developed and the under-developed areas of the world can be accomplished effectively, or at all, only by private enterprise and private investment. If for no other reason, this is because governments do not have the resources of capital or technical knowledge to carry out a broad-scale program, whereas private capital does.

"By the same token, government loans and credits must be regarded at best as temporary and marginal measures which are likely to play a declining role in economic development in the future.

"The private business community submits also that if there is reliance primarily on private enterprise and private investment, the related problem of technical assistance will largely solve itself, at least insofar as industrial technology is concerned, because, as is well known, private investment brings in its train the most up-to-date scientific knowledge and applied technology."

Acquire NYSE Membership

Transfer of the New York Stock Exchange membership of James F. Durand to John R. McLaughlin will be considered by the Exchange on May 26. Mr. McLaughlin will continue as a partner in Neuberger & Berman, New York City.

Theodore Ludlum in Boston

BOSTON, MASS.—Theodore T. Ludlum has opened offices at 53 State Street to engage in the securities business. That Mr. Ludlum would form his own firm was previously reported in the "Financial Chronicle" of April 28.

Louisville Broker Opposes Banks Selling Local Housing Authority Bonds

Thomas Graham, Manager of The Bankers Bond Co., Inc., of Louisville, Ky., tells House Banking and Currency Committee banks will use pressure to have their own customers buy these securities from them as they did before crash.

Appearing on May 13 at a hearing of the House Banking and Currency Committee on Sec. 502 of the Housing Bill, Thomas Graham, General Manager of the Bankers Bond Co., Inc. of Louisville, Ky. sharply criticized the proposal to allow commercial banks to underwrite and sell the Housing Authority bonds.

Thomas Graham

"If this amendment were to be passed," Mr. Graham said, "I do not believe that any of the some 500 banks in Kentucky would avail themselves of the privilege of underwriting these bonds. It is possible that there might be two, but I doubt if there are any."

Representative Patman (D., Texas) interrupted to cite that a statement filed in favor of the amendment contained the names of the First National Bank of New York; J. P. Morgan & Co. Incorporated, New York; First National Bank, Boston; the California Bank, Los Angeles, and the First National Bank, the Harris Trust and Savings Bank and the Northern Trust Co., all of Chicago.

"It has about 25 or 30 banks listed as supporting the amendment, Representative Patman remarked.

Mr. Graham also said that while a large majority of investment dealers are opposed to allowing commercial banks to underwrite and deal in bonds of local housing authorities, he understood that a few had come out in support of the banks.

"Of course, the banks will use any kind of pressure," he added. "As a matter of fact, I was advised by two Louisville bankers who have correspondence with two of these big banks in New York that it would be just as well if I did not appear before this committee. But that is when I always like to do something."

Mr. Graham stated in his testimony that "the banks will use any kind of pressure to gain their end," agreeing with Representative Muller (D., N. Y.) that:

"Just as they brought pressure on the investment brokers to back this up, they would then be pressuring their own customers to buy these securities from them, just as they did before the crash."

Mr. Graham in course of his testimony stated that "it amazes me to see every key job in the Terasury filled up with these Wall Street bankers, and they just kind of ferry back and forth. One time they are Assistant Secretary of the Treasury and next they are President of one of these banks. I do not know if it is a pay offer or not, but I think it is. I think the people are entitled to know why these various persons, after they get to be Assistant Secretary or Secretary, should turn up the next week in New York at a salary of $50,000 a year. I am just a little tired of getting pushed around that way."

Gutt Approves Limited Sale of So. African Gold

Managing Director of International Monetary Fund explains attitude relating to sale of semi-processed metal to manufacturers.

Camille Gutt, Managing Director and Chairman of the Executive Board of the International Monetary Fund, made the following statement in Capetown, S. A., on May 11 following conferences which he has had since May 2 with South African officials. "I came to Capetown at the invitation of the South African Government primarily to discuss questions relating to the sale of semi-processed gold. As has been made clear on previous occasions, the policy of the International Monetary Fund is to prevent sales of gold in this form from becoming a means of feeding the demand for gold for hoarding purposes and thus diminishing the production of newly mined gold which finds its way into monetary reserves. The Fund is also concerned about the fact that an increasing amount of gold in premium markets serves to aggravate the difficulties of countries that are trying to prevent the illicit import of gold into their territories.

Camille Gutt

"Our discussions have taken place in a very cordial atmosphere and I have been impressed by the evident desire of the South African Government to reach an agreement with the Fund on the methods of achieving the policy referred to, while at the same time permitting the South African gold mining industry to have a share in the legitimate business in semi-fabricated gold.

"As a result of our discussions certain safeguards will be adopted to secure that semi-fabricated gold is sold only to manufacturers for purposes of genuine manufacture and that the importer of the gold has the prior permission of his own authorities to make the purchase for this purpose. Moreover, the South African Government will keep a careful watch on the business and will reserve the right to decline permission for export in any case in which they are not satisfied that the demand is for the purpose of genuine manufacture.

"Certain safeguards will also be adopted in the case of the manufacture in South Africa of gold articles for export in order to avoid such articles becoming a device solely for feeding the markets which the Fund desires to limit.

"The Fund will, of course, continue to keep this whole matter of premium gold sales under review with all its members."

W. I. Hollingsworth Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—W. I. Hollingsworth & Co. has been formed with offices at 606 South Hill Street to engage in the securities business. Officers are W. I. Hollingsworth, President; E. G. Carter, Vice-President, and D. H. Swan, Secretary and Treasurer.

Socialism—The American Pattern

By EMERSON P. SCHMIDT*

Director of Economic Research, Chamber of Commerce of the U. S. A.

Dr. Schmidt analyzes provisions of the Spence Bill which proposes to implement Administration's "Fair Deal" Program. Intimates it is a "pink" variety of socialism and a drive toward controlled economy. Lays happenings in Washington to attack on our economic system and recounts socialistic trends in recent legislation. Concludes struggle against movement is not lost and urges as offsets: (1) keep your house in order; (2) support sound fiscal and monetary policy; (2) step-up the educational process; and (4) keep watch on needs and strivings of people.

Many people are still confused as to the meaning of Nov. 2. Since the 81st Congress has opened, to this confusion has been added uneasiness and apprehension. Is the country going Socialist? Is it an over-all Planned Economy? Is it the Welfare State? The Insurance State, or what? We're on our way, but where to?

Dr. E. P. Schmidt

The Spence Bill (H. R. 2756), if passed and fully implemented, could and probably would, destroy what we know as a free market economy. It would give the President (which means the government bureaus) wide discretionary authority and power to substitute their ideas and opinions for free market forces. He is authorized to fix prices, to lower prices, to delay price increases until a board makes a finding. The Federal Government may go into almost any kind of business—not just the steel business. It may loan money to private businesses and to state and local government, to go into ordinary private business, including not just manufacturing but also wholesaling and even retailing. All these things are to be done only if the President (the bureaus) finds it necessary.

In this bill of some 40 pages, we find, instead of some objective rule or standard, words like these:

"... with respect to which *(the President)* finds ...

"... *he shall determine* approximately ...

"... whenever *the President determines* that it is necessary ... (used three times)

"... on such terms and conditions as the *President deems* necessary ...

"Whenever *the President determines* that Federal procurement is necessary to help achieve the quantity goals ...

"... as *the President deems necessary* ... (used four times)

"Whenever *the President finds* ...

"... in *the judgment of the President* ... (used seven times)

"... if *the President finds* ...

"... to the extent that *the President determines* ... (used four times)

"... as *he may deem* appropriate ... (used twice)

"Whenever *the President determines* that a shortage of any material or facility is affecting adversely or threatening ...

"... to the extent that *he deems* practicable and appropriate ...

"... which *in his opinion* will be practicable and effective, and will, within a reasonable period ...

"... *in his opinion* ...

"... *in his discretion* ... (used twice)

"... unless it is *determined by the President* ... (used twice)

"... where *the President determines* ...

"... *the President shall,* so far as practicable, ascertain and *give due consideration* ...

"... (the President) shall make adjustments for such relevant factors *as he may ... deem* to be of general applicability ...

"... when *he deems* necessary ..."

Thus the power centered in the Presidency is as purely discretionary as these quotations from the bill strikingly suggest.[1] While the President probably doesn't know it, these are the same type of wide barn doors which were available to Hitler and Mussolini.

Will the Spence Bill pass? Probably not, but even if killed, it will rise again and again ... because the people behind it will not die when the bill itself is shelved this Spring. They will try again next year, and the year after. ...

What is behind these trends of our society?

Power Is Shifting

Evolution becomes revolution when change is greatly accelerated. Our economy is rapidly being transformed from a capitalistic to a "laboristic" economy. Power is shifting to the urban masses. As recently as 1850, over one-half of the national income came from self-employment. Today, four out of every five gainfully-occupied people are wage earners. We have become a nation of wage-workers. In the early days, the outlook, values and customs of capitalists, business proprietors and farmers set the tone of the political life of the country unchallenged. Their moral values set the standard for the community. They were its intellectual leaders. They were the dynamic progressive element in our economy. In this environment, both the institutions and the ethics of capitalism found firm root and were continually revalidated.

While agriculture remains, to a degree, a fortress of individualism and petty capitalism, it has shrunk in relative importance. Due to agricultural surpluses, a vast array of government programs and government interventions has transformed the farmers themselves from believers in a free market economy into believers in a partially controlled economy.

Today, capitalism is living on a backlog of mores and beliefs built up in an early and different environment. Like all backlogs that are not replenished, this one must run out in time.

The universal franchise, the march of technology, and the shift of population into the great urban centers have fostered the rise of the political power of the urban masses. Our society is passing through one of the great transformations of history, such as occurs only once every two or three hundred years.

From now on, we are likely to have a "labor" government. If not in name, it will be so in fact. This is true of the Federal government and is likely to be largely true at the state and local levels. This trend will experience occasional but short-lived setbacks. Organized labor is likely to be a dominant political force from now on. There is nothing in sight to stop this trend. Indeed, it is likely to be accelerated.

If so, we must learn to live with it. We must learn to adapt ourselves and our thinking and our economic structure to this new situation. It means some very fundamental changes in the years ahead, changes which will not strengthen our economy, if precedents in other lands are any guide.

Does it mean socialism? Probably, but not in the short-run. The labor movement in this country is the only important labor movement in the world that is not socialistic. Private property is deeply entrenched and respected. The labor leaders are for private property. They have some reservation about turning everything over to Washington.

Yet, this does not mean that labor leaders and their political spokesmen, in and out of government, believe in a free market economy.

A Free Market Economy

What is a free market economy? It is one under which the individual is free, within his means and ability, to become self-employed, a job-maker or a job-seeker. This provides much freedom of choice. It is one under which the instruments of production are privately owned by millions of individuals. It is one under which the consumer ultimately governs and directs production. It is one under which the expectation of profit—self-gain—directs both the worker and capital. It is one under which scarcity reflects itself in rising prices, which in turn lures additional manpower and resources into the areas where wages are best and profit anticipations are strongest, thereby overcoming scarcities. It is a system under which, when coupled with effective antitrust legislation, the march of science and new technology inevitably translates itself into ever greater output per manhour and a higher and richer standard of living for all the people. Wholesale prices, for example, in 1930 were at the same level, according to the official price index, as they were in 1840, 90 years earlier; but meantime, average wages increased by 700%. Labor unions were few and relatively weak in that period. No one planned for this improvement in the standard of living.

But this rise in real income for all groups is the end product of a free, dynamic, progressive society. Under this system, we have some 4 million separate business establishments, outside of agriculture, each of them anxious to survive and most of them anxious to grow. When added to the 6 million separate agricultural enterprises, we have some 10 million separate business centers where new ideas, new methods and new products may be tried. We have 10 million centers of initiative and enterprise.

It is inconceivable that any other system for organizing human effort could ever outproduce our system. It is inconceivable that such a system could ever stagnate for any length of time, given a favorable political climate. Furthermore, under such a system there is a greater diffusion and dispersal of power than under any other system.

Yet, why is it under attack? Why is it in the process of destruction? What, incidentally, does this prospective destruction mean

(Continued on page 28)

*Address by Dr. Schmidt, before Federal Reserve Bank Conference of the 9th District Bankers, Minneapolis, Minn., April 23, 1949.

1 This list taken from *"The Drive for Controlled Economy via Pale Pink Bills,"* Chamber of Commerce of U.S.A., Washington, D. C., 1949, 17 pages.

Broken Government Promises

(Continued from page 18)

pended, Great Britain still was in need of help.

The Bretton Woods agreement was going to lead us out of the monetary confusion. It has done nothing of the kind. The International Monetary Fund was to be the real savior of the world. The world is in confusion still. The Marshall Plan was widely proclaimed as the last act to insure a peaceful and cooperative world. We are more worried today than we were at the close of the war.

The United Nations at last was the answer to a world in distress. Thus far, aside from its settlement of minor misunderstandings, its principal use has been the establishment of a world broadcasting system in which the communists can expand their philosophies to the millions of the world's downtrodden and underprivileged.

The Good Neighbor policy was to insure peace and harmony with our neighbors to the south. Our neighbors to the south have never quarrelled more violently.

The China Aid Plan was to save China from the Eastern hordes. Today communists have that fine old nation by the throat.

It is now suggested we have a Far Eastern Plan and that such a plan is a must in the program for a peaceful world.

Finally, we have the Atlantic Pact, and once again we are being assured and reassured that this is the key to the solution of the world's problems.

I am not contending these plans were without value. As a matter of fact, they may have made a partial contribution to the solution of the world's problems. I am contending it was wrong to tell our people they were sure-fire cure-alls. These assurances cannot be justified with the statement we had to propagandize and oversell the people to enable the government to put these plans into effect. Any program that cannot be honestly placed before the people so that they may evaluate it on facts should be rejected.

Time for Government to Be Careful of Promises

Little wonder, then, our people are becoming progressively dubious. It is time for our government to be careful in its promises and to be more concerned with the fulfillment of its pledges unless it wishes to see the faith of our people in their government completely shattered.

We have today in our nation millions of patriotic, thrifty people who have invested their savings in government bonds. Now, was there any promise made to these people when they invested? There certainly was. The people had a right to expect a sound fiscal policy from our government so that at the maturity of the bonds they would be repaid in dollars of as nearly-like purchasing power as the dollars they invested. But will they? What is their situation today? Have they not been inflated out of half of the purchasing power of their savings? Is the government keeping its promise when it spends and spends, and taxes and taxes to further lower the purchasing power of the dollar? In plain, understandable language, is the government honest when it pursues such a policy or is it a lot of double-talk to keep people's minds off their plight? How can the government expect its people to have faith in government credit when everything it does tends to destroy that faith? Isn't it time the government gave serious thought to keeping its promises? It has made a similar implied promise to every holder of a life insurance contract, every bank depositor and all other groups. Is it to continue its deceitful, camouflaged program of soothing its creditors with a socialistic lullaby score?

To blame all of these situations on our two wars is putting the cart before the horse. What caused the two wars? Who was in charge of government when the two wars developed? Who were the ones responsible for the plans and programs? Who permitted Hitler, for instance, to get organized? Who permitted Mussolini to get a head start? Who rescued Stalin when he was all but liquidated? What were the programs that made for unrest? You will find, whether you like it or not, that most of the responsibility for the conditions that gave these people a hearing and enabled them to put forth their irreligious philosophy and brutal plans for conflict, rests on the administration in charge of governments which failed to keep their promises to their own people, by failing to act in time, or to the people of the enemy, by failing to see that any program they directed for these countries would not prevent a rabble-rouser from taking hold.

The Farm Support Programs

Let us take a look in another direction. It is said that when Houdini died, he left the world with an understanding that if he found in the great beyond a spirit world, he would on a specified occasion or occasions come back to communicate with certain friends. On each of these occasions his friends have gathered awaiting his message, but to no avail. One might conclude he found no spiritual world from which he, the great magician and spiritualist, could communicate. But a short time ago I am sure he must have come back to earth. I know of no one else who could have devised the proposed farm plan. Surely it takes a magician extraordinary to pay the farmers more and sell to the consumer at less. This is an economic feat worthy of only his wizardry.

The announcement stated the plan would give the consumer a break. I'm wondering whether they didn't spell "break" incorrectly. The added taxes he pays will surely prove a brake on his initiative. What is the promise implied in this program? The implication is very clear that it is a magician's plan that is not going to cost the farmer or the consumer anything. Such a promise is false.

Now, frankly, isn't it too bad that the most powerful government in the world must resort to this sort of chicanery in trying to help the farmer? Why deceive anyone? Why not the truth? The truth may not get votes but it will get respect, and respect for our government is more important than all of the votes ever cast.

This isn't a discussion of whether or not a farmer should get a subsidy. It is a question of being frank; of how, if you give it to him, you intend to do it and who will pay for it.

A frank statement would be as follows:

"We propose to guarantee you a certain price for your farm product. This price will be slightly more than you are now receiving. You will sell your product at the market price. The difference between the set price and the market price, assuming it is lower than the price we guarantee, will be paid to you directly by a check drawn on the Treasury of the United States. The Treasury of the United States will get the money to pay by taxing all of the people—you, the working men and women, the pension people and everybody having a taxable income will have to pay a part of the money we give you. We can't get it from the rich alone because there aren't enough of them. We can't get it from the middle class alone because they haven't enough to pay it. We will really in the end get none of it from business concerns because, if they pay it, they have to add it to the cost of their product and the consumer will pay it. It will be paid in any number of ways. When anyone buys a suitcase, he will pay part of it. If you commute to your job each day, you will be paying a part of it. If your wife buys a piece of jewelry, she will pay part of it. You will pay a part of it when you buy the necessities of life. In fact, it will work into the price of everything you buy one way or another.

"Now to get this check from your government, you will have to agree how much to plant, what to plant, when and what to sell and you will have to farm as you are told."

In addition, if you looked ahead and wanted to be honest in your statement, you would add: "If you should grow more than the market will buy, although we are not saying so, we will under these conditions try and get up some global plan to distribute it and get it out of the country.

"Of course you know the government is not a producer; it is just an administrator, so we don't have any money of our own. All we have is what we collect by taxes and we propose to collect from other groups and give it to you."

This reminds me of the time a Southern cotton farmer was given his first check for not planting cotton. That was in the days, you will recall, when we were destroying crops and livestock. I can't imagine a more irreligious plan, but it occurred in our own life time. This Southern farmer got a check for not planting cotton. As he opened it and looked it over, he said to his wife who did what little banking he had to do, "Mary, you better put this in the bank and keep it there. Let's don't use it. It comes from Uncle Sam and you know he doesn't make anything. He just collects things. He collected taxes somewhere to get the money to pay this check. How do you know but what he may come around in the near future and collect money from us to give someone else a check, so we better be prepared and keep it in the bank."

I am not saying there should not be some measure of farm support. I am saying, if it is to be, let us be honest, open and above board in our promises.

I should be frank in saying that I see no reason why, if you support one group, other groups equally affected by inflationary forces should not be subsidized. How about giving the bond holder a check to make his interest a legitimate interest and not an artificial return? Why not give the annuitant an extra check to bring his receipts up to the purchasing power of his dollar when he invested his hard-earned money? How about a subsidy for white collar workers or underpaid school teachers? In fact, if you wish to go all the way in a socialistic regimentation, why not subsidize everybody? In the end that may be the most effective way of deflating the socialistic balloon.

It is interesting to note that if you are an exceedingly successful farmer and have through thrift and industry grown to be a big farmer, you are out of luck. Your scheme of life doesn't fit into the socialistic philosophy. Your father and your grandfather probably told you that one of the great things about this country was there was no end to what you could accomplish if you applied yourself. However, we are sorry—times have changed—new era, you know—and don't you dare tell your child or grandchild he can by hard work get ahead and accomplish most anything. Tut-tut—you tell him Uncle Sam will take care of him—he needn't worry except to be sure he gets his place in the beggar's line.

Honest Abe once said that "You cannot help the poor by destroying the rich," but Old Abe has been gone about a hundred years and he would be old-fashioned in this era. He also said, "You cannot build character and courage by taking away a man's initiative and independence." Yes, yes—but Abe had a rugged body and he could take it.

We are living in new times and conditions are different today. Don't you know that? Of course all of this is reminiscent of the new era we were presumed to be enjoying in 1929. That new era, however, became rather old-fashioned in the early thirties.

It is an interesting thing that the promises of socialism are often partially fulfilled by taking away the fruits of capitalism. The production of a competitive free economy is not only used consistently to prime the socialistic pump, but it is a necessity to keep it pumping. The promises we live by are important. False promises can and do weaken nations. The promises of a socialistic government aren't worth the paper they are written on if they couldn't rely on help from capitalistic or competitive free enterprise nations.

We are being promised security from the cradle to the grave. By whom? By the government. How does the government intend to pay for this? By taxing its people and thus making them more insecure. We have reached the point in this nation now when people have decided not to put forth the extra effort—that added incentive that made our nation great. And why have they decided not to do so? Because the government will take the cream of their crop and every added dollar they make will be garnered by the government.

How can the government promise cradle-to-the-grave security when it knows the only real security is that which people earn? It was Lincoln who said, "You cannot keep out of trouble by spending more than you earn." And what is the effect of all these plans? It is very simple. It in time will tear down the nation and make a representative form of government a mockery. It will transform a whole nation of thrifty industrious people into the world's largest group of mendicants. It will survive only so long as it has the stored credit of an industrious people who have gone before us to rely upon, or so long as competitive free enterprise will continue to supply the fuel to stoke the socialistic boiler. In either case, the experiment may be of short duration, but the consequences may last a century.

The whole objective of the world is peace. Much has been said and written about it.

We have promised our people that everything we are doing is in the interest of peace. We sincerely believe it to be so. But have we said anything to our people about the fact that if peace came tomorrow, it would not be without its problems? If overnight we could have a peaceful world, everybody would welcome it. It would be a Lord's blessing. But temporarily there would be quite a readjustment and it would not be easy to go through. It would be so worth while that Heaven knows everybody hopes it comes because no suffering is too great for a real peace. But when you eliminate your armament expenditures and your big Federal budget for your world-aid programs, you would have a readjustment that would bring about some unemployment and quite a bit of hardship. These sufferings would be temporary and well worth while; but if they should come, then over the longer-range period of time the nation would really move forward on a sound basis. Isn't it more honest when we promise peace by the various programs we have, to tell our people at the same time there is a price for peace that must be paid? That price, however, is such a bargain compared to our present economy that it is well worth while. If our people know these facts, they will cooperate much better and we will avoid much social unrest.

Our forefathers chafed under a managed economy. They knew the limitations of opportunity in a regimented state. They could see the effect of a militarily controlled nation. It took great courage for them to strike out for a pioneer country. They knew it meant sacrifice and hardships and long and tedious hours of labor, lonesomeness, sickness and disease. But they had the courage to attempt it and they made world history in the establishment of a nation that gave man the greatest opportunity, fullest freedom, most real security and highest standard of living the world has ever known. They wanted to get away from the old countries where they had but limited opportunity at best. They wished to escape class prejudice and class limitations of opportunity. It is a tragic comment on the descendants of these hardy pioneers that they are planning or acquiescing in a form of government their forefathers risked their lives to escape. Our government, already at the highest break-even point of any nation in world's history, now owing a debt twice the size of all of that of Europe, had better take heed before we lose that priceless heritage of a representative form of government.

Men and women live by promises—promises that are performed. The highest mark of civilized man is to have it said of him that his word is as good as his bond. You who are engaged in the field of credit are charged with the responsibility of seeing that promises are kept. You analyze your accounts to evaluate the sincerity of promise by performance. If you will clearly understand that an insistence on a respect for a promise and a courageous fight to see that promises are fulfilled is important, you will be contributing greatly to the struggle of your fellow men and your nation. Somewhere, somehow, there must be a halt to broken and false promises unless we are to return to the dark ages.

Despite what some people tell you, we have today many statesmen who are keenly aware of the crisis we face. They are statesmen equal to the best in our history. They are men who have kept their promises faithfully and who have continually insisted their government do so. We should uphold them and strengthen their hands.

Credit executives have never dodged facts. Above all else, they must be realistic. If a problem is a difficult one, they recognize it for what it is and proceed cautiously and constructively towards its solution. They know the great potentialities of our nation. They realize that we have in the past faced many crises and that on each occasion we have met these situations and moved on to further progress. However, they also realize that in these situations people were not afraid of the facts. Knowing the facts, they were stirred to action. That is why I feel justified in presenting the matter as I do.

You, too, in your own daily work can be a statesman, for remember, you as a group have, next to the government, the greatest responsibility of any group in the United States to see that promises are lived up to. Have the courage to measure up to your task. A promise made good is like a prayer—it strengthens the soul of men and restores faith in mankind. It is and will always be the hub of the wheel of civilization and the Gateway of Peace. It is in keeping with all the religious precepts God has given us.

Britain's Stake in U.S. Deflation

By PAUL EINZIG

Dr. Einzig reports fear American deflation may develop into disastrous slump is disturbing Britain, and there is grave concern whether Britain's economy could be isolated from it. Says it may result in Labor Government's reluctant revaluation of sterling and relaxation of prevailing austerity policy.

LONDON, ENGLAND.—The fall of prices in the United States is causing growing concern in London. At its initial stages the downward movement was welcomed with relief, because it removed the fears of a world-wide inflation, and because Britain hoped to benefit by the lower prices of imported goods. As and when the fall of American prices continued to progress, however, the feeling of relief gave way gradually to uneasiness. It is now feared that the trend might affect unfavorably the British export drive, through increasing the competitive power of American industries and through reducing the absorbing capacity of American and other markets.

Dr. Paul Einzig

Nor is this all. There is now growing apprehension over here on account of the possibility of a world-wide large scale deflation. And in some quarters it is even feared that the American deflation might develop into a disastrous slump. The United States has come to be regarded in Europe as the one remaining stronghold of economic stability and prosperity on which the restoration of stability and prosperity in Europe must rest. The possibility of a repetition of the experience of the 'thirties is now feared to threaten this foundation stone of European reconstruction.

Among Communists and their Left-wing Socialist sympathisers the symptoms of deflation are greeted with undisguised satisfaction. They now claim that these symptoms foreshadow the economic collapse of the Western Powers which has been freely forecast by Communist propaganda during recent years. Even those Communists who, like Professor Eugen Varga, of Moscow refused until recently to endorse such prophesies, are now inclined to change their attitude, under the influence of the reports of the progress of deflation in the United States.

Apart from Communists and Left-wing Socialists, however, there are very few people in Britain who really expect a collapse comparable with that of 1933. British experts realize that the United States today has much better weapons to resist a slump than they had during the 'thirties. In addition to the New Deal devices which existed then and exist now, there is now the Marshall Plan with the aid of which exports could be maintained. And there is also the rearmament drive which could maintain employment. It is felt that, since even in the absence of E. R. P. and rearmament the United States Government was able to check the slump in 1933, it would be all the easier to check it now with the aid of those devices. Nevertheless, while the possibility of a complete collapse is ruled out by all but Communist and crypto-Communist "wishful thinkers," in many British quarters it is feared that the decline of prices, once started, would proceed much further than is necessary or advantageous. It is feared that the deflationary spiral might get out of control, and that its psychological effect on American consumers and producers might assume such proportions that even the employment provided by New Deal, E. R. P. and rearmament would be unable to offset it.

This possibility is viewed with grave concern in many quarters in London. The question that is asked more and more frequently is, would Britain be in a position to isolate her economy if deflation in the United States went too far? It is true, Sir Stafford Cripps himself would be in favor of a moderate degree of deflation. The Government never misses an opportunity for exhorting British industries to cut down their profits and prices. But should deflation reach a stage that would necessitate cuts in wages it would become politically and industrially impracticable in existing conditions of Socialist rule and full employment. The Government would then be unable to resist pressure in favor of checking and even reversing the movement. The question is, would this be possible if deflation in the United States continued?

There is reason to believe that the British Government is envisaging the development of such a situation. It would then have to take measures to isolate the British economic trend from the American economic trend. This could be achieved partly by a devaluation of sterling and partly by a relaxation of the prevailing policy of austerity. At present Sir Stafford Cripps certainly does not envisage a devaluation. He really means what he says in this respect. But, should the fall of American prices continue beyond a certain point, it is conceivable that he might reconsider his attitude. Indeed one of the arguments against an early devaluation of sterling is precisely the possibility of a situation arising in which the devaluation weapon could be used more beneficially than it could now. Under conditions prevailing in Britain a devaluation would lead to a rise in British prices. Should the fall of American prices continue, however, it might become possible to devalue without causing a rise in British prices, solely in order to avoid a corresponding fall of British prices. Premature devaluation would lead to a rise in prices followed by a painful process of deflation. It would of course be preferable to wait, and not to devalue until it could be done in a way as to avoid both a rise and a deflation.

Should American deflation affect British business, whether through its material influence or through its psychological influence, the British Government might conceivably seek to maintain full employment by the release of purchasing power. Possibly there would then be an Autumn Budget for that purpose, though even without a Budget it would be possible to release purchasing power. It would be with the utmost reluctance that Sir Stafford Cripps would resort to this weapon, or to the weapon of devaluation. He would only resort to it when all hopes of a timely termination of American deflation have been abandoned.

Richard A. Kerbon Dead

Richard A. Kebbon, partner in Kebbon, McCormick & Co., Chicago, died on May 7.

Inflation and Postwar Profits

By WILLIAM J. KELLY*

President, Machinery and Allied Products Institute

Chicago industrialist, deploring myth of high corporate profits, asserts inflated dollars earned and retained by American corporations are not adequate to finance normal improvement of productive facilities, and impedes technological advances. Cites statistical evidence on inadequate corporate earnings, and contends postwar corporate profits, when corrected for higher inventory and equipment replacement costs, have been lower in relation to national income and sales than in any previous period of peacetime production under high employment.

Along with speculation on the 1949 business outlook, nothing is more discussed in the United States today and seems as little understood as the level of business profits. Much of this discussion, unfortunately, is not intended to be complimentary to the private enterprise system. Nor is it a constructive influence for either the immediate or the long-term prospects of the capital goods industries. Indeed it adds up to a baleful force exerted to propel us in the direction which England and France have drifted during the past several decades, namely, down that road to technological stagnation which I discussed with you some months back.

William J. Kelly

You will also recall that a year ago, and two years ago, led by labor spokesmen seeking second and third round wage increases, we heard that profits were exorbitant, that wages could be raised without increasing prices, indeed that prices might even be substantially reduced, and that corporate taxes should be drastically hiked. What the labor leaders left out, certain political leaders put in and the same tune goes on and on.

Unfortunately it must be admitted that American business itself is guilty of unwittingly adding noise to this attack on profits. Month after month during 1948 quarterly reports emphasized record profits, and day after day this Spring we have read and heard annual reports telling of new profit levels.

Now, we should be proud, and I am sure we are proud, that new profit highs can be attained in the operation of the American system of private enterprise. They augur well for the future living standards of all the people of this country and of other countries as well. But with respect to profits reported in terms of American dollars we have had, postwar, a very special situation which has had only a fraction of the study it merits. This special situation has been inadequately pointed up in corporation reports, it has been weakly dealt with by our business organizations, it has been ignored by labor organizations, it has been misunderstood by many legislative leaders and policymaking bodies, and it has not been comprehensively treated by the press.

The special situation to which I refer is, of course, the price inflation that—

(a) has changed the purchasing power of American dollars;

(b) that has caused paper profits on inventory values;

(c) that has created more paper profits from underdepreciation of fixed assets, resulting in many cases in under-costing of products and failure to recover replacement-cost value of capital consumed;

(d) that has caused taxes to be paid on these paper profits; and

(e) that has brought to serious questioning the mechanics and conventions of accounting practice and corporate financial reporting.

Inherent in this confused thinking concerning price inflation is a positive threat—which if not removed from the path of American business will hit first and abruptly slow down the capital goods industries. Other potentialities inherent in this special situation could seriously affect the future ability of American businesses to accept new risk, to undertake new plans, to equip and re-equip their plants and properties.

Thus MAPI has been conscious of an urgent need to acquaint American businessmen and students of public affairs with the true level of profits and savings of American corporations in the postwar period. The true story needed to be expressed so that national policy might be based on fact and not on fiction. So, as part of our work in the public interest, we decided to take on the research job ourselves, and in a few minutes I want to give you a preview of some of the illuminating facts that this extraordinary MAPI study nails down.

I may add here that the new pamphlet, which will be entitled "Inflation and Postwar Profits," is assured of an exceptionally wide audience in every important group in the United States. Indeed we are hopeful it may be the basic instrument—not necessarily the sole instrument, but the basic instrument — that will lead our policy makers to avoid mistakes in national policy which if made would swell the rolls of the unemployed with alarming rapidity.

Now before I list the highlights to which I have referred, let us look back at what has been going on in this general area during the past few years. This specific, all-out attack on business profits was launched Dec. 11, 1946, when the CIO-Nathan report was issued. In that report, under the title "A National Wage Policy of 1947," the CIO made four major claims: (1) that corporate profits had become fantastically excessive; (2) that they were responsible for a rise in the cost of living which eroded the purchasing power of wages; (3) that the excessive profits threatened industrial collapse from lack of consumer purchasing power, and (4) that the high level of profits would permit industry to absorb wage increases averaging 25%, without price increases, and still have left enough to yield a return on net worth equal to that of the prewar period 1936-39. Of course, this was utter nonsense, but it is unwise to laugh off a document, however fallacious, that promises to be supported by millions of voters at the polls. Rather it is simple wisdom to deal with it with alertness and thoroughness. You will remember we did so by issuing the MAPI analysis of the Nathan report on Dec. 19, eight days after its release by CIO. Many of you used the documentation in that analysis in your 1947 wage negotiations. So influential did that MAPI bulletin become that 6,000 readers of a weekly newsletter asked for copies of it. Note, though, that the MAPI reply to CIO won no wars—for the war on profits continued — but the analysis did mighty well in battle. That the defenders of profits did not gain ground more rapidly is due in no small degree to inadequate understanding on the part of industry itself which in turn was due to failure on the part of industry to distinguish paper profit from real profit, to differentiate between historical book costs and the current dollar value of capital consumed.

So when in April 1947 it opened the second phase of its campaign to clear the fog, MAPI found it necessary to take on for debate not a labor organization alone, but many representatives of the business world and practically all of the accounting profession. If you will bear in mind that 82% of your customers told us through a survey we made that they give orders to you and other capital goods manufacturers only when they have plenty of cash in the till, and not otherwise, you will understand why we believed it most important to expose thoroughly the effects of underdepreciation on true profits. To that end, therefore, we issued in April 1947 our pioneering study, "Depreciation Policy and the Postwar Price Level." Copies of it were so eagerly sought by leading members of the business and professional worlds that a second printing was made, and finally a third printing was required in January, 1949. The influence of that study has been beyond our most sanguine expectations. Since its release the issue of under-depreciation due to price inflation and what to do about it has become an active interest not only of business executives but of the accounting profession as well. While the battle for realistic depreciation and full recovery of the purchasing-power-value of consumer capital is by no means won—it is indeed in its early stages — it has aroused so much thought and discussion that it promises sooner or later a constructive result.

It goes without saying that naturally the Machinery Institute is deeply concerned with the maintenance of a dynamic economy through the expansion and improvement of our industrial facilities. Nothing, in our judgment, would more gravely impair this process in the long run, or jeopardize more seriously the maintenance of high-level economic activity in the immediate future, than an attempt to reduce, by additional taxation or otherwise, a volume of business profits already subnormal by any reasonable standard of comparison. Such an attempt would curtail both the incentive for new risk investment and the funds available for financing it. Neither can be prudently curtailed.

This reasoning made inevitable our third weapon in the warfare of education, namely, our forthcoming study, "Inflation and Postwar Profits." In it we measure the overstatement of postwar corporate profits from the use of historical or book costs, rather than current or replacement costs, not simply for fixed assets, but for fixed assets and inventory combined. To be more specific, we recompute postwar profits and, for comparative purposes, the profits of earlier years, by charging replacement cost for all physical assets used up in production. These recomputed profits are then com-

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*An address by Mr. Kelly at the 47th Spring Meeting of the National Tool Builders Association, Chicago, Ill., May 12, 1949.

As We See It

(Continued from first page)

creased. Whether taxation sufficient to meet the expenditures thus envisaged, or the debt is to be increased for that purpose, is usually a subject about which "advanced" opinions differ, but for the most part this phase of the matter is regarded by these Keynesian followers as of secondary importance.

Standing Pat

The President at the moment is said to be "standing pat" on his campaign speeches and his annual messages. There are those, of course, who interpret this position of the Chief Executive as implying a stubborn refusal to recognize changes which have taken place during the past half year, particularly during the past three or four months. One net effect of this stand by the Chief Executive is to give the impression in some quarters that in insisting upon higher taxes and adding nothing to his earlier expenditure schedules, he is clinging to a rather conservative position in which he insists upon a balanced budget, or rather a budget which gives hope of a surplus for reduction of debt.

Thus, so it appears to the unthinking perhaps, President Truman is not permitting himself to be persuaded to depart from sound principles of fiscal management by scares of a business depression, or by those smooth apologists for Keynesian nonsense who would enormously unbalance the Federal budget at such a time as this in order to keep the nation "prosperous."

Off the Mark

But such, of course, is far from the fact. The Committee for Economic Development, with whose deliverances we have not always been able to agree fully in the past, but which seems to us to have come forward with some good counsel at this time, sets forth the President's program very well as regards these matters in these words:

"It [the Administration] is pushing its domestic programs for social and economic betterment—in social insurance, education, resource development, agriculture and the like—well beyond their previous high water marks.

"It is undertaking the greatest peacetime preparedness program our country has ever known. And it is recognizing its new international position with the most extensive program of foreign relief, reconstruction and military aid the world has ever seen.

"If the government continues to expand so fast and in so many directions at once, we will suffer damaging consequences to private economic effort and individual freedom of action. The committee feels there is much evidence that we are in or near this danger zone."

For our part, we find the chief weakness of the CED in its modesty. A great deal more than the two billion or so intimated or suggested by this Committee, we are certain, could be pared from the budget—and should be. We are certain in our own minds, moreover, that something of the sort sooner or later will have to be undertaken and carried through to completion if we are ever to get back to any sort of really sound footing. Again, so far as we are concerned, right now is as good a time as there ever will be to get at this task. We repudiate now as we should do at the peak of feverish activity, the notion that prosperity or anything approaching or resembling it can be made permanent by fiscal profligacy. At this time, as at any other time, it will in the long run if not in the short run, do much more toward discouraging private enterprise (which, after all, is the main force in our economy and will, we certainly hope, always remain so) than it would to stimulate activity and thus perpetuate a boom.

Bold Men Needed

We can only wish those in places of power and influence in politics who are in any event inclined to follow this lead of the CED were bolder in their advocacy of really sound fiscal management and policy. We must, of course, concede that a decade or more of President Roosevelt and his persuasive economic fallacies, followed by President Truman's back-platform hill-billyism carrying these same fallacies still further and imbedding them still deeper in the nerve structures of the rank and file, have created a situation in which considerable political courage is required for any active politician to take a sound stand in these matters. So much pure economic nonsense has become household words today, that he who preaches common sense is at the outset under a very severe handicap. But somehow, sometime, these matters have to be faced and correct decisions reached if we are to escape totalitarianism.

However, we do not believe a courageous stand at this time would be politically quixotic. It would be quite feasible, in our view, to return to fiscal sanity at the present time without precipitating any serious or prolonged depression. If such a return were accompanied by convincing assurance that private enterprise was being freed of the unnecessary burdens of controls and other interferences (including government competition) imposed since March 4, 1933, no one, in our judgment, would need fear more than a relatively brief period of readjustment before the time arrived when what we should have to worry about would be a real "boom"—a boom of the sort likely to breed its own destruction.

But we must of course admit freely that no such basic movement as this appears to be getting under way in any influential political quarter.

Socialism—The American Pattern

(Continued from page 25)

for our national security in a hostile world? Indeed, for our survival?

The Role of the Intellectual

Unquestionably, the pain and suffering of the depression of the 1930's account greatly for the accelerated revolution that is upon us. But its roots go deeper. They are found in our educational system and in the role of the intellectual in our society, as in any society. William S. Schlamm, in his important book, "The Second War of Independence," states:

". . . In addition to being the problem child of modern civilization, the intellectual has also become one of its outstanding challengers, for it is simply untrue that the disintegration of democracy is the result of merely economic dislocations. It is simply untrue that Nazism, Bolshevism, and Fascism are the predestined reply to the appeal of hungry, unemployed, indebted farmers and underpaid toilers. Contrary to the general consensus of opinion, all brands of totalitarianism (and especially Bolshevism) are not social expressions of economically distressed underdogs, but rather diseases prevalent among rather well-fed intellectuals—in America probably more so than in Europe. A serious statistical checkup would certainly disclose that on the editorial staffs of metropolitan newspapers, among college teachers, among the stars of stage and screen, among successful writers and among students whose generous monthly allowance is regularly remitted by well-to-do parents, there is relatively fifty times more totalitarian lunacy (particularly of the Stalinist type) than among the poverty-stricken Okies, the needleworkers or unemployed miners . . ."

Again he states:

". . . Within every society, be it ever so democratic, there is a relatively small group of intellectuals who give that society its tone and character. What one thousand professors, writers and bishops think, write, preach, is handed on by three hundred thousand teachers, journalists, and ministers to the 130 000,000 Americans, and forms the consciousness of the entire nation. The process is as inconspicuous as it is overpowering. Just cut these thousand key intellectuals out of the national body politic and the nation will, within a few years, have a completely changed complexion. The circulation of an author's book is unimportant (not for him, of course, nor for his publisher), for its effectiveness depends not on the number but on the social importance of its readers; a book which has made an impression on 3,000 teachers and 2,000 journalists alters the essence of our national being more appreciably and enduringly than a novel which is read by two million housewives. Ninety-nine and nine-tenths per cent of the American people have never held a book by John Dewey in their hands, but all Americans have, in some degree, been educated by him, simply because the thoughts of this great pedagogue have activized the transmission belts of our educational apparatus. In defending themselves, the opponents of Archibald MacLeish could scarcely have found a more superficial argument than to point to the relatively small circulation of his books. Though its mass may be relatively insignificant, the catalytic agent will basically alter the larger chemical process . . ."

For some decades, now, beginning with professors of English and the literary crowd, our economic system has been under constant attack. This literary output was reflected through Hollywood, through the schools and the churches. Private property, profits and individual self-reliance have been ridiculed and under persistent attack. The depression seemed to give validity to these attacks.

The attack was progressively re-enforced by highly articulate and vocal minorities drawn from the clergy, the sociologists, the political scientists and most recently, the economists. The politicians soon took up the scent.

If the attack is so widespread, you may say, then, perhaps our economic system is bad and does not merit survival. This is too facile a conclusion. The intellectuals are critics by training and occupation. They gain acceptance and recognition frequently only by being "agin" something, by having "better" and "superior" ideas. They take a rationalistic view of all things. All values, all institutions and all ways of doing must be constantly questioned. The old and the established is suspect simply because it is old and established—and it must give way to the new, the untried, and the unproven.

It is safe to predict, however, that when we get the society envisioned and hoped for by the intellectuals, they will pounce upon, criticize it, and destroy it by dissolving through perpetual criticism, the cement, the *mystique*, which might otherwise hold it together. They will do this—because that is their occupational pay-dirt—unless by that time those in authority will have taken them in hand, as all authoritarian systems have had to take their intellectuals in hand. Almost daily we have accounts in our press, taken from Moscow newspapers, of how the Soviet biologists, the physicists, the poets, the composers, the dramatists and economists "are being brought into line." A few are liquidated week by week so as to set an appropriate example to others showing any undue individualistic tendencies. Every dictator and overall planner knows that when the faith is sapped, as inevitably it tends to be sapped in a corroding world, then the leader goes, as go he must, and the experiment collapses. The Kerenskys of today will be liquidated by their successors tomorrow.

Today in Washington, we are reaping what we have sown in the past two decades. What is happening in Washington? Basically, two things: (1) A powerful drive is on to further socialize incomes; (2) A well-coordinated program to displace the free market as the guide to our economic activities, by a system of administrative directives, which appear destined to end in an authoritarian system. A high moral and economic rationale has been evolved to pave the way for this revolution. This is found in the various Economic Reports.

What, then, does this mean? Within the past generation, at least ten or a dozen powerful weapons have been forged for leveling and socializing incomes. The most important of these, of course, is the progressive income tax. This tax, based on the so-called "ability to pay theory", means that so long as Brown has more income left after taxes than Black, Brown still has further ability to pay more taxes. The logical conclusion of this tax philosophy is the final equalization of all incomes. Checks on this equalization are being made less and less effectual by the simple device of having the politicians vote themselves ever bigger tax-free "expense" accounts. We have just given the President of the United States another $50,000 annual income, free from all taxes, in addition to a salary increase. It will be just a matter of time until the key government policy-makers will see to it that this bounty is spread to them. Then, this natural check on the leveling of income will evaporate.

The corporation income tax likewise takes a larger toll from the bigger corporate income than from the smaller. After $50,000 of annual net income all corporations pay 38% but the smaller incomes begin at a lower figure and only gradually work up to 38 cents out of every dollar. There is constant pressure for an "excess" profits tax to "soak the rich" although the poorer citizen is just as likely to own a few shares in a profitable corporation as in one which is less profitable.

Social Security

Employees, generally, pay 1% of the payroll to finance social security while employers pay 3% to 6% or more, depending on how you figure it — covering workmen's compensation, old age and unemployment compensation. A full blown social security program as proposed, will absorb from 20% to 23% of payroll. To some extent, social security is a device for spreading income more evenly over a period of time—collecting the premiums during employment and paying out benefits when hazard hits. But, the benefit formulas are generally loaded in favor of the low income group. Nearly all social security programs also have the effect of transferring income from the more productive, more efficient or more fortunate people to those less favorably disposed. The proposed expansion of social security suggests that this method of leveling income may be still in its infancy. We have covered only part of the distance between the womb and the tomb.

Driving Down the Interest Rate

Thrift and savings formerly were rewarded by annual interest earnings of about 5%. Insurance premiums earned the same interest accumulation.

Today, interest rates have been cut in half by means of what is called monetary and fiscal policy,

a subject a little complicated and subtle, but something we should study a little more.

In the past, periods of prosperity and especially war periods always entailed rising interest rates to help check excessive demand for borrowings and to stimulate the supply of savings. World War II was financed with a constant and low or falling interest rate. This was indeed a stupendous and far-reaching achievement.

Lord Keynes was the father of the engineered, artificially low interest rate which reduces the earning power of capital and savings. This transfers a greater portion of the earnings of capital to low-income groups.

Keynes spoke frequently of the "euthanasia of the rentier" and the "functionless investor." This was an erudite way of saying that there is really no point in paying anybody to save—adequate capital should and could be made available without anyone seemingly having to pay for it.

While he had some misgivings about his own brilliance on this point, his followers adhere rigidly to policies designed to make borrowing cheaper even though the policy reflects itself in a steady dilution of the money supply and a steady deterioration in the value of the dollar. Perhaps Keynes, and especially his followers, did not notice that driving down the interest rate also creates a new problem (or should we say, opportunity?) for the government, in the form of more old-age dependence, now that, with artificially low interest rates, the capacity of the individual to save for his old age is made more difficult!

This low interest rate policy puts the government in competition with all private lenders, forcing down interest rates all around—a leveling process affecting everyone.

There is a growing conviction among thoughtful people, however, that a society of personal and political freedom and a free enterprise market economy are integral parts of each other. And it is just beginning to dawn on these same people that a free money market—one in which the interest rate performs its historic functions of determining where to invest, and governing the demand and supply of capital—is also an integral part of the free society.

Government spending and lending for housing, for agriculture, and for innumerable other purposes are all tied in with this further effort of leveling incomes.

The Labor Movement

If one examines the President's economic reports and programs submitted to the Congress as well as the several reports of the Council of Economic Advisers, one discerns a clear-cut policy of utilizing the labor movement to cut down the earnings from job-making to the benefit of the job-holder. While things are said on all sides of this complicated issue, again and again there is much talk of a deficiency of purchasing power. There is much discussion of encouraging wage increases (sometimes with the limitation "where they will not cause price increases").

While economists generally agree that deficiency of mass purchasing power is not the cause but the result of depressions, much pressure is generated in Washington in support of the unorthodox and generally unaccepted "underconsumption" theory of boom-bust which is so often utilized to justify the upward wage thrust.

By building up the labor movement through Wagner Acts and pulling the teeth of Taft-Hartley the labor unions are encouraged to strive more aggressively for a larger slice of the national income. The employers are deprived of their natural resistance to encroachments by the unions. Extending the areas of collective bargaining to include numerous fringe and other benefits is another attempt to get for labor a larger and larger slice of the national pie. By reducing the prerogatives of management and enlarging labors' voice in management, the earnings of investors are steadily reduced. As investors become more skeptical of future earnings and the security of investment, the way is paved for "government going into business" because, it is alleged, private capital won't come forth.

Minimum Wage Legislation

Minimum wage law bars any worker from a job unless he can find an employer who is willing to pay at least 75 cents, $1, or whatever the fixed hourly rate may be. Whenever the minimum is raised, all the wage rates above the minimum also receive an upward thrust to maintain the historical differentials of the wage structure. Minimum wage law has become a device for hoisting the whole general wage level. Here is another way of passing money from one group to another.

Federal Variable Grants-In-Aid

In the hospital construction law, the amount of Federal grants to the different states is based in part on average per capita incomes within the state, the bigger slice going to those states where incomes are lowest. The people in the "rich" states thus pay the hospital construction costs of the people in the "poor" states. In earlier years Federal grants, as for the aged, the blind and dependent children, were based on some uniform or equal-matching principle. Today it is rare for a Federal grant-in-aid bill to be introduced in Congress without a so-called variable grant-in-aid, the amount of the grant varying inversely with the per capita income among the different states. The pending bill to put the Federal government back into the direct relief business, and to revise the program for the aged, blind and children adopts the same variable grant idea.

Food Allotment

During the depression, with a view both to relief and to transferring more income to farm groups, the "orange and blue" food stamp allotment program was adopted. The extra stamps were the equivalent of good cash to those who got them. A bill recently introduced in Congress would revive this program. Clearly, this opens far-reaching avenues for the further redistribution of income and greater equalization. The law, or more likely the administrative bureau, could decide that all persons with less than so much annual income would get so many stamps entitling them to so much free goods.

Rent Control

Rent control is a device for transferring income from people who supply housing to people who don't. New York State did not abolish the rent control growing out of World War I until 1927. The hold which rent control has on the American people today suggests that this method of redistributing income is likely to be difficult to remove even though all the evidence shows that it accentuates the desire for housing and diminishes the supply of new construction, especially in the face of the threat of extending rent controls to new construction.

Public Housing

Again and again it is argued that private effort cannot provide adequate housing for the lowest income group. The government must come to the rescue, and the government must tax the people with more income so that the low-income groups can live in new housing.

Estate and Inheritance Taxes

What the government can't get during your lifetime the government can get when rigor mortis sets in and your executors begin to look over what's left.

There you have 10 ways by which income is being equalized.

This makes a pattern that is hard for the politician to resist. Why should the voters not vote themselves a slice of other people's income every two years or at least every four years? Why should the politician not lend his hand to this business of taking from the limited number of A's and handing it over to the more numerous B's, even though privately he would not take a tire off A's car or lift a pumpkin from his garden.

It is not hard to find some moral justification and perhaps historical precedents for such a program.

Throughout our Anglo-Saxon history and traditions, there has always run a pronounced equalitarian strain. The Declaration of Independence emphasizes that we are all created equal. The Constitution prohibits class distinction based on hereditary or other titles. We reacted strongly against the feudal caste system. Early in our history we supported universal, compulsory common school education. We were committed to the doctrine of the equal start.

Later, this same set of ideas was commonly referred to as "equality of opportunity." We felt that if every child were educated, and there were no legal or other artificial discriminations, we would all have this equal start. Then each should be entitled to keep whatever he could earn. It was the function of government to create conditions favorable to this equal start.

In 1862, we passed the Homestead Act, for example, under which any citizen (or even a resident alien intending citizenship) could carve out for himself a 160-acre homestead, a place to get a start, a place where he could be himself and make his own living in his own way. In 1890, we passed the Sherman Antitrust act, designed to prevent monopoly and to give any and all, who had the desire, the means and the ability, the opportunity to set up in business for themselves.

Our present program, of course, goes far beyond these earlier ideas of equal opportunity, an equal, start, and preventing monopoly. The battle against inequalities, it is said, now needs additional detergents.

The economic sanction placed behind this drive toward the equalization of income runs in terms of boom-bust problem and full employment. Although this rests on tenuous ground, let's take a look at it. It is said that business profits and individual incomes above the consumption levels are spent more slowly than wage, social security, and similar types of income. The worker and social security beneficiary spend their incomes promptly, thereby returning the money to the income stream. It then can become promptly income to others and helps keep the economic machine rolling.

Savings, whether earned by a business or an individual, tend to lie around in "stagnant pools" in the banks or the treasuries of an insurance company for a time. So it is argued. When the business outlook is dim, these funds are hoarded, thereby deepening depression. So, if we are to assure full employment, full purchasing power and full production, we should shave off the big incomes and a good slice of profits.

This argument has some support among some economists. But nearly all, if not all, would agree that business depressions are caused and influenced by far more complicated factors and that this is altogether too simple a view, a too facile rationale, of a highly technical and interdependent economic process.

Nevertheless, both on moral and economic grounds, the drive for leveling incomes has support, or as the logician would say, a rationale has been found. Those who would develop some stopping point to the socialization process need equally good or more potent counterarguments and weapons. There are plenty of them, but they don't get themselves publicized very well.

These income-leveling weapons are capable of further sharpening and intensifying. For the most part they are relatively new.

Taken together they constitute a formidable battery—a powerful engine with ten cylinders. Add a few more cylinders and enlarge the bore and stroke of each—then we will have a different America. Whether the fuel and lubricants to keep the engine going will dry up, remains to be seen, but the experience of other lands that have tried this same type of experiment for some decades suggests that it is easier and more popular to redistribute wealth and income than it is to add to the total supply.

Conclusion

Well, there you have an interpretation of the American brand of socialism. Will it bring us a better life, or does it mean our doom?

First, a reactionary nostalgia harking back to the good old days is itself un-American. A modern, dynamic, technological culture, such as ours, must make political and economic changes.

A reactionary resists all change. A radical would tear things up by the roots. A conservative is one who believes there is something worth conserving. We need intelligent and enlightened conservatism capable of reading the signs of the times right and making useful adjustments, but capable of sticking to essential first principles. Given proper information and direction, the majority of Americans will still support sound principles and most of them believe that we have plenty that is worth conserving. While time is running out, the struggle is not lost and many good years may be ahead for all of us.

What can you do?

(1) Keep your own house in order. Conduct yourself and your business affairs so that all basis for legitimate criticism is removed.

(2) Support sound fiscal and monetary policy so as to remove the necessary elbow-room which the over-all planners must have in order to convert our society into an authoritarian system.

(3) Step-up the educational process. Don't support through foundations or otherwise the projects and the people whose aims or whose policies and actions will destroy our way of life.

(4) Deepen your own understanding of how our economy has functioned during our history and what it takes to keep it functioning in the interests of all groups which are committed to freedom and economic progress.

(5) Deepen your sensitivity and feeling for the needs and strivings, both psychological and economic, of people so as to find ways and means of attaining these needs *back home and in the community.*

These steps may help to take the pressure off Washington and help to perpetuate our freedom and economic progress.

J. Barth & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Louis Nicoud, Jr. has been added to the staff of J. Barth & Co., 482 California Street, members of the New York and San Francisco Stock Exchanges.

Robert Diehl Joins Paine, Webber Firm

LOS ANGELES, CALIF.—Appointment of Robert D. Diehl, prominent for the past 20 years in the security business, as manager of the Corporate Trading Department in the Los Angeles office of Paine, Webber, Jackson & Curtis, 626 S. Spring St., members of the New York Stock Exchange, was announced by George Forrest, resident Partner.

Robert D. Diehl

Mr. Diehl has a broad background of experience with leading investment banking firms in Los Angeles and Cleveland. He has been active in the Traders Associations of both cities and is presently serving a renewed term as a member of the National Traders Committee of the NASD.

Municipal Bondwomen To Hold Spring Meeting

The Municipal Bondwomen's Club of New York will hold its Spring luncheon meeting at the Wall Street Club on Thursday, June 9, at 12:30 p.m. Guest speaker at the luncheon will be Mrs. Wilma Soss, Founder and President of the Federation of Women Shareholders in American Business, Inc., and her subject will be "Today's Woman in Finance."

Mrs. Soss is a well-known public relations counselor and pioneer newspaper woman. In her capacity as President of the Federation of Women Shareholders in American Business, Mrs. Soss has made great strides in convincing large industrial companies that their annual stockholders meetings be held in cities where the majority of stockholders reside, rather than in remote places as heretofore. She has more recently created considerable interest in her strong efforts to urge large companies to elect capable women to their Boards of Directors.

Phila. Securities Ass'n Field Day

PHILADELPHIA, PA. — The Annual Field Day of the Philadelphia Securities Association will be held Friday, May 27, 1949, Paul W. Bodine, of Drexel & Co., President of the Association, announced. The outing will be held at the Aronomink Golf Club, Aronomink, Pa.

Burr Eastwood Now With First California Company

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Burr Eastwood, Jr., has become connected with the First California Company, 300 Montgomery Street. Mr. Eastwood was formerly with Franklin Wulff & Co. and Conrad, Bruce & Co.

James D. Kent With Dewar & Company

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF. — James D. Kent has become associated with Dewar & Co., First National Bank Building. Mr. Kent was formerly with Buckley Brothers and Walston, Hoffman & Goodwin.

Inflation and Postwar Profits

(Continued from page 27)

pared with profits as now reported to disclose the overstatement in the present figures. The results of this comparison are little less than astounding. Let me summarize the study for you in this way:

(1) In the first section of the study we deliberately set aside the fact that earnings are understated. We simply present a comparison of corporate profits from 1910 to 1948 in billions of dollars, in percentage of national income, and in percentage of sales.

In dollar volume postwar profits have been, indeed, unprecedented. When they are related, however, to the dollar volume of business on which they were earned, the illusion of abnormality disappears completely, and recent profits are shown to have been **below** the average of full peacetime prosperity in the past. The average of 10 representative good years, prior to World War II and back to 1910, is found to run about 9% of national income and 6% of sales. **Not one of the postwar years 1946-48 made the average.**

(2) The study turns next to the much more striking picture when the overstatement of profits is eliminated. Here profits have been recomputed, charging replacement costs for the inventory and fixed assets consumed, and the profits for earlier periods similarly recomputed for comparative purposes.

When the replacement cost of the physical assets used up in production is charged against current profits, the reckoning of profits is materially and in some cases drastically revised. The change for the three postwar years 1946-48 is particularly conspicuous. Where before the correction the overstated profits for these three years were 8.3% of national income, true profits are found to be only 5.1%. Where before the correction profits were 5.4% of sales, on the correct comparative basis they are only 3.3%. Not only do these figures show a reduction of well over one-third, but the relation between postwar profits and those of earlier years of full peacetime prosperity is also drastically affected. On a comparable basis, the 10-year average of prosperous earlier years was 8.9% of national income and 5.8% of sales. Not even the best of the postwar years comes anywhere near these figures.

(3) The study then explores further the conversion of profits to a replacement cost basis and gives the extent of the corrective changes.

This showing discloses at a glance the extraordinary margin by which replacement costs have exceeded the costs actually charged during the three postwar years. Profits on a replacement cost basis are actually lower by 60%, or $19 billion. For one of the years, 1946, the overstatement of profits was almost 100%. It is of more than passing interest that of the $19 billion overstatement of profits, $13 billion reflected undercosting of inventory and $6 billions undercosting of fixed assets consumed in production.

(4) Next retained corporate earnings are shown, comparing profits as overstated with true or corrected profits.

The transformation in the picture of retained corporate earnings (not corporate savings) when corrected profits are shown is a striking one. Savings in the 1946-48 period reported on the overstated basis as $30 billion shrink $19 billion down to only $11 billions. Taking the three years as a whole, all but this $11 billions of the so-called "savings" are found actually to have been absorbed simply in maintaining each year the volume of the physical assets with which corporations began the year.

(5) The study proceeds to relate the corrected corporate savings figures to a measure of the contemporary volume of business, national income being used for this purpose.

The conclusion shown is that contrary to popular impression, recent savings have been comparatively low. 1946 is shown to be but slightly larger than 1940, and, except for 1940, lower than any year since 1913 except for 1918 and the depression '30s. Even 1947 and 1948 show as well below the average of 3.5% for the 10 prosperous prewar years. So again, when these corrected savings or retained earnings are related to a contemporary volume of business their unprecedented magnitude turns out to be another myth.

(6) The study tests next whether net corporate savings, postwar, were high in relation to net expenditures for new plant and equipment.

Again the conclusion is inescapable that true postwar net corporate savings have been relatively low. For the three postwar years 1946 to 1948 they amount to only one-third of net capital formation (expenditures for new plant and equipment), and this compares with an average ratio of 57% for five good years of the 20's, or an average of 72% for ten good years extending farther back.

(7) Another section of the report explodes the illusion that we have witnessed an unprecedented withholding of earnings by corporate management. On a corrected basis the percentage of profits distributed was 86% in 1946, 62% in 1947 and 56% in 1948, an average of 68% for the three years. This compares with an average of 61% for the ten prosperous prewar years.

(8) Inflation and Net Worth: Under this heading the study proceeds to relate profits to net worth as they were previously related to national income and to corporate sales.

It is shown that these profits are no more than normal for a period of prosperity. The average for the three postwar years is 5.4% of net worth, as against an average of 5.5% for prewar prosperous years. The year 1946 was decidedly below the average, 1947 close to it, and 1948 moderately below it.

(9) The final section of the study answers the question: "What does the picture look like in constant dollars?"

If the myth of abnormal postwar profits needs still another rebuff, here it is: True profits expressed in constant dollars average lower for the period 1946 to 1948 than for the period 1926 to 1928, notwithstanding an increase of about 80% in the physical volume of production in the interval. Even for 1948, the best of the postwar years, the figure is only modestly above the level of 20 years earlier, and is below that of 1929. Confirming the direct evidence in other sections of the study, it is clear that postwar profits actually have lagged well behind the growth of the economy.

These are the principal conclusions of the new MAPI study, copies of which will reach your desk soon—within the next ten days or two weeks. The study suggests a number of possibilities for effective use by thoughtful businessmen throughout the country. In concluding my time with you today, I will point these out quickly.

(1) Had American corporate business shown its true profit of $32 billions rather than $51 billions it did show for the postwar period it would have saved itself no end of criticism and attack. With the findings of the MAPI study now available, if it will, American business can now counter that criticism and turn back that attack.

(2) There is food for thought in the fact that had taxes been assessed and paid on true profits, American corporations would have paid less in taxes—$8 billion less in taxes on the fictitious profits of $19 billions. The effective corporate tax rate on corrected taxable income has exceeded 50%.

(3) Businessmen obviously should avoid any further endorsement of the proposition that the overstatement of corporate profits is now water over the dam. On the contrary, historical cost accounting for fixed assets does not soon catch up with replacement costing. It will lag for years and even decades after stabilization of the price level has occurred. At the present time the replacement cost of corporate net fixed assets is above historical costs by about $60 billion. Were the price level to remain about where it now is, corporate depreciation charges would fall short of replacement costs by $60 billions before the existing facilities which were purchased at lower price levels are entirely exhausted. And this means that at present tax rates this continuing underdepreciation would cost American corporations in the neighborhood of $24 billion additional in Federal and state income taxes. It behooves management, for its own sake, and for the sake of its relations with stockholders, employees and the public, to give this subject first attention. The consequences of accepting financial statements in dollar terms at face value, and of continued misunderstanding of the effect of inflation on profits, prices, costs and capital formation cut across our entire economy and are of prime importance in influencing the economic health of the capital goods industries. Gross misunderstandings, on which present wage, price and tax proposals are based, will disappear, and we will have a more constructive recognition of the need for corporate savings, and for beneficial change in the conditions now hampering the market for risk capital, if and when the facts put forth in this new MAPI study filter down into the grass roots of America.

(4) Today we have in America the cream of the world's scientific and inventive ingenuity. We have this partly because our system, formerly more so than now, encouraged and developed creative talent, and partly because other nations did not, and some of their greatest scientists came here, where they could find more freedom and incentive.

(5) Technological advancement is born of science and invention but it must be reared by industry. It is a long way from the brainchild of a scientist or inventor to the practical products and services which make a high standard of living.

(6) It is clear from the historical record of this and other industrialized countries that continued technological advancement is a primary requirement for higher living standards. It is the source of more goods and services, and of more jobs at higher pay so that the goods and services of a higher living standard can be acquired and enjoyed.

(7) We stand on the threshold of what can be the greatest era of technological advancement, sustained employment and improvement in living standards in all history. If we achieve our destiny it will not be as a result of building myths and spinning illusions. It will be because our economic studies are thoroughgoing, objective, and precise. If we ever thus find the facts, and translate them into national policy, our opportunities are unlimited.

How to Revive the Stock Market

(Continued from page 6)

the world's area. Americans constitute 7% of the world's population. We have 60% of the world's telephones, 80% of the world's automobiles, 35% of the world's railroads. We have $24 billion in gold. We produce 60% of the world's wheat; 60% of its cotton; 50% of its copper; 50% of its pig iron. We have 36% of the world's banking resources. Our purchasing power as individuals is greater than the total purchasing power of all the people of Europe or all the people of Asia. Such natural wealth and creative power involve obligations. The stock market is supposed to be the barometer of the economic condition of a country. This barometer—the stock market—does not necessarily have to predict "good weather" or "a business boom," especially during a period of transition and of economic uncertainties. The barometer, however, in a country like ours must never be suspected of being an instrument out of order. Why has the American investor, the business man and the working man so little confidence in the future of his great country, as indicated by the desolate status of the stock market which has been drifting on for years, or what is everybody fearful of in America? Americans ought to give proof to the world that they believe in their own economic and great financial power.

The American way of life, the American "know-how" dominates the earth. The nations of the world are watching us, most of them hoping for our success, while some desire our failure. Our economic conditions, our hopes and fears are registered by the barometer—the stock market. Although there is nothing basically wrong with the stock market, something must be done to revive business, to attract wider-spread public participation and to encourage speculation-trading in stocks. Furthermore, the great task has to be successfully undertaken to convince millions of savers that they, by acquiring stocks, receive "the satisfaction of investment — the pride, the feeling of participation, the extra income." The plain people, those in the lower income brackets, who describe corporation owners as "big business men," "bankers" or "society people" of every community will better understand that all "Main Street" leads to "Wall Street," the "much abused financial mother of the richest and most progressive nation on the face of the earth." Indeed, it is the "Market Place of the Nation." Then they may realize "that freedom to buy and sell private property in an organized market is a priceless privilege." A wonderful act has to be done for our system of free enterprise. This system will become stronger the more people share in the ownership of American corporations.

Some Corrective Measures

Greater demand for stocks could be secured by:

(1) Tax relief: reducing the capital gains tax and shortening or eliminating the holding period, correcting the present double taxation on dividends.

(2) Life insurance companies should get permission to invest a part of their huge surplus in high-grade common stocks.

(3) Brokerage fees should be kept as low as possible in order to get a bigger turnover in transactions. Premiums for traders ought to be taken under consideration by refunding part of the commissions in case buying and selling of the same security is effected within a certain short period.

(4) New methods for salesmanship of securities and advertising: Utmost simplicity must be observed when telling or writing the facts. Advertisements must catch the eye like announcements of sales of clothing or food. Words such as "yields," "ratio" or phrases as "the stock is selling at a 22.25% discount from its quick assets value" or "the burden of proof is on the bulls" are not understandable to the public. Such scientific vocabulary, used and understood by insiders, is "abracadabra" for the general public, especially for the newcomers.

(5) Better relationship between management and stockholders: Better recognition of stockholders by management is necessary. Dividends ought to be proportionate to profits. Stockholders are getting only about 40% of reported earnings against 70% in the past . . . but living costs have gone up. The huge majority of stock owners are more interested in income advantages than in speculative trading for profit possibilities.

Voting power of management for special fees, exorbitant salaries, bonuses and pensions ought to be restricted. The same applies with regards to the voting of options to purchase shares at low prices. Shareholder meetings should not be held at small distant places, but where large attendances can be accommodated. Only lately a more cooperative spirit on the part of management toward the "forgotten man," the stockholder, is taking place. Or as Justice Ferdinand Pecora put it "corporate management and stock owners owe it to each other to develop an economic democracy as bulwark against communism and socialism."

(6) Simplicity needed in corporate financing methods: In no country of the world is the modern method of bookkeeping so clear, easily understandable and convincing as in U. S. A., but in no country of the world are the methods of corporate financing so diversified as in the U.S.A. The enormous variety of the capital structures of corporations makes untrained persons shudder. There are corporations having only common stocks, some have class A and class B, some with or without par value, then there are rights and warrants, preferred stocks, such as "First Preferred," "Second Preferred" designated as A and B for prior claims. Then there are Bonds, Mortgage Bonds, open- and close-end mortgage bonds, Debenture Bonds, Convertible Bonds, Guaranteed Bonds, Income and Adjustment Bonds, etc. This multiplicity of capitalization methods is for the average man a wilderness, where he himself feels **"lost"** for lack of understanding. Although an army of experts and analysts is at work studying each company from all angles, ready and willing to give advice free of charge, the customer who needs "the facts" is unable to get them by himself. He finally concludes that each company is for the untrained mind more or less a sort of a science, which he considers himself unfit to study.

Conclusions

The stock market—a barometer of the country's economic conditions—is in a deplorable status. Turnover in stocks is at a record low ebb. The foregoing suggestions are merely six principal points of an evolution that would change the present state of affairs. Many more improvements could easily be mentioned. New venture capital is urgently needed. "Wall Street" under the leadership of the New York Stock Exchange is on a crusade to persuade millions of people to invest a part of their savings in stocks of the great industries of their country. These people declined up until now to have anything to do with stocks for "lack of familiarity" with them. There has been and still is a great general ignorance

prevailing about stocks and corporations, but these "newcomers" do not know and understand anything about these subjects, terms, financial and brokerage methods.

Stock brokers must find a "way of all round simplicity" to attract eyes, ears and minds by simplifying their methods, language and approaches totally, or these people will never become their customers. Many of the "newcomers" do not seem to mind risking even losses, which is proved by the enormous attendance of race-courses, but they want to "understand what it is all about" in order to be able to form their own judgment in their decisions. They want utmost simplicity. If we do not succeed in our appeal to them, we must be content if they, at best, merely join the daily increasing number of stockholders of Investment Trust Companies, if only for the one reason that they (the newcomers) do not want to have anything to do with the management of their own portfolios.

These considerations might explain the fact that, according to a statement of the SEC, the Open End Investment Funds are "the most important development in financial history in the last 50 years." A failure of the "crusade" would not only diminish greatly the number of brokerage firms, or would make them selling agents for the investment trusts, but would leave unsatisfied the demand for new venture capital, as most of the trusts are usually investing in a relatively small number of leading companies, contenting themselves with furnishing new capital to those industries in which they are already shareholders, but declining to take over new issues of any company they have not already sponsored. Such effects would, therefore, be deplorable for the brokerage firms as it would lead to "freezing the regular stock market business." It would hurt the country's general economy and the future of private financing of American industry. Wall Street ought to combat these facts and continue as a militant crusader for venture capital. This is Wall Street's greatest task. It may be Wall Street's last chance to preserve a free enterprise system.

Let Railroads Be De-Regulated!

(Continued from page 19)

try? Do they hold any promise of an expanding security, of expanding earnings, of expanding opportunity for 1,300,000 employees—or anyone else?

Let's look:

During World War I, we in this country tried nationalization of railroads. It proved to be a very poor substitute for private enterprise. It cost the American people a little more than $2,000,000 a day—to run the railroads during the two years of the first World War. This was true in spite of the fact that passengers paid 51% more per passenger mile under government operation and shippers paid 80% more per ton mile.

During World War II the American people didn't try nationalization again. We let the railroads run themselves — and they did a magnificent job. Instead of having to pay out $2,000,000 a day to operate the roads, the American peolpe took in $2,500,000 a day in the form of taxes from railroads. Freight rates remained at pre-war levels and passenger fares advanced only slightly.

Private Operation Saved $4,500,000 A Day in World War II

The difference between government operation and private operation was about 4½ million dollars a day—in favor of private operation — and in favor of the American people.

It is a remarkable story of great achievement which has not been lost on the American people. As a matter of fact, I think we in this country may have passed the peak demand for government ownership and may be moving in an entirely different direction — or can be moving in a different direction if we keep everlastingly at it.

Because the idea of nationalization has its supporters, I think we ought to take a look at what is happening in England.

I was born in Scotland and I worked in British locomotive shops when I was a young man. I own shares in a number of British railroads, and I have a good many friends in the British Isles. I have more than a passing interest in this whole subject.

To date, nationalization in England has been applied to the Bank of Engalnd the Cable and Wireless Company; civil aviation; coal mining; transport—meaning railways and waterways; electricity; gas. Iron and steel are next on the list, but the legislation has not yet been put through.

Let's look at nationalization through the eyes of the worker. Has it fulfilled his hopes? Has it led to better things? Is there any good expectation that it will lead to better things?

Socialistic Arguments Are Disproved

My own conclusions are these—

It has been argued that the worker, under socialism, will feel a great spirtual release — that absenteeism will fall and productivity rise.

Nationalization has clearly demonstrated that the argument is no good. In fact, the opposite may well be true. Miners who always imagined that nationalization was somehow going to make them captains of industry are finding after about two years of nationalization that they merely work for a different boss—government, or the community, or the common good. "The Railway Gazette" of London remarks:

"When we turn to the higher grades in the commission's service we have noticed with regret that quite a number of occupants of responsible posts appear to have lost their former gusto for the day's work. They plod along conscientiously but a feeling of frustration has come over them and the old zest they felt for the fray is gone."

The idea that political governing boards will act more successfully in the public interest is also not getting much support. Nationalized boards are tending to become groups of men working each for his own department or division—whereas old-style boards of directors worked together for the most part.

Nationalization has not been a disaster as some expected it to be. But the damning fact is that nationalization shows no evidence of having a strong, *good* effect.

Private Enterprise Is Not on Trial

Socialism, after all, is on trial, not private eterprise—and there is no good evidence that it is better for anyone, while there are still many reasons to distrust its long-range effects.

I see no reason, on the basis of experience in England, for any American employee to believe that nationalization can have a good and beneficial effect for him. In fact, the assumption seems to me stronger than ever that nationalization is essentially for the desperate—and cannot be justified except in desperation. It is a form of receivership.

At the same time, it is quite evident that large numbers of people believe that our own system needs to progress, which, I believe, is exactly what it is doing. We are now being asked to gear our profit system to the achievement of additional objectives.

It is my own feeling, of course, that *only our dynamic enterprising system can achieve the great goals the American people are setting*. It is my own conviction that nationalization and regulation lack the living spark. They will never get the results they promise. They lack creative force.

Which Is Better System for Employees?

The industries of England have nationalization today because they did not keep their private enterprise house in order. They did not provide machines to increase the productivity of the worker. They turned to cheap labor instead of helping the worker to earn more by producing more. Now there is no cheap labor and the industries have had to go "through the wringer" of nationalization because they couldn't compete. They haven't got the money and they have no way of getting it—except through government. It is by no means certain they will get it that way either.

It seems to me all the evidence points one way. The free enterprise system is vigorous, dynamic, constructive and can do more for employees than any other. It has created a tremendous productive force. It has sometime been short-sighted. But the socialistic system has yet shown no evidence that it can do as well in this regard and provide the drive necessary to build a dynamic social system, or even to run a going concern successfully over a period of time.

I think instead of talking about nationalization, the time may be ripe to talk about de-nationalizing the railroads of this country—about de-regulating them.

If we can show the 1,300,000 employees and 1,900,000 investors of U. S. railroads that *de-regulation* is the road to greater security, greater earnings and greater opportunity for them, *I believe the American people are today fully prepared to accept such a course.*

Regulation of American railroads, as we all know, came out of 19th century public opinion. *I believe it is time to start some 20th century thinking.*

Railroad regulators were attempting to defend the American people against a transportation monopoly. In a democracy when anyone begins to get a monopoly, he can be certain he's going to get regulation with it.

Market Is Most Competitive in History

But the 19th century idea of railroads is as out-of-date as the fancy Pullman cars of that period. The railroads of this country no longer have a transportation monopoly—far from it. They were never in a more competitive market than they are today.

In the middle of the great depression of the '30s, the trucking industry suddenly grew up. Since before the war, the number of "class one" interstate trucking enterprises in this country has more than doubled. Total revenues have gone from $700,000,000 in 1939 to more than $2,500,000,000 today.

In addition, American railroads face the stiff competition of buses, inland waterways, pipelines and air transport. The total volume of business done last year by all the competitors of the railroads was over $4½ billion.

There is no transportation monopoly today. As a matter of fact, the reverse is true.

Today regulation is actually preventing railroads from achieving their full efficiency in a highly competitive market by making them pay to run while wearing leg irons. If the railroads are not permitted to operate at top efficiency, how can we expect other forms of transportation to be driven by railroad competition to improve their own services and facilities? Regulation of the railroads is often not serving the best interests of the public—it is actually working against them.

I need not tell you what a stimulating effect progressive de-regulation of railroads might have not only in this country, but throughout the world. For America to turn away from regulation would be a tremendous stimulant to freedom-loving people everywhere. It would be a reaffirmation of the American belief in the individual if we were to start *de-socializing our railroads.*

These Are Ways to Reach Our Goals

What are some of the steps by which we can begin to approach our goals of greater security, earnings and opportunity for all associated with the railroads, and better, faster, lower-cost service for the customer?

I think 1,300,000 employees of railroads, and their representatives, backed by 1,900,000 security holders, could greatly strengthen their industry and advance their own interests by helping toward such goals as these—

1. *A realistic system of depreciation for railroads.*

I believe the current system is entirely inadequate. Railroads are being asked to buy $4,000 box-cars out of depreciation on 2,000 box-cars. It can't be done. We need a reconsideration of the theory of depreciation based on original cost.

Actually, the $4,000 box-car costs considerably more because the money has to come out of earnings after taxes amounting to about 38%.

Furthermore, depreciation rates are unrealistic. We are in a fast-moving atomic world. We often have 30 or 40-year depreciation rates in a 10 or 15-year world.

That's 19th century thinking, too.

If the best interests of 1,300,000 employees and 1,900,000 investors are to be taken care of, railroads must not be penalized. When earnings are taken away from an enterprise, they are not there to help anyone.

It's Essential to Have Adequate Return

2. *An adequate return.*

If railroad employees are to have greater security, greater earnings and greater opportunity, they—like everyone else—have got to help fight for a higher return for their companies. *Money has got to be earned and paid out to risk-capital so that risk-capital will flow to the railroads and help them become stronger*—for the good of the employee, the shareholder, the shipper and everyone else. Money has got to be earned so that substantial amounts can be re-invested in modernization and cost-cutting methods. That's the way to low transportation rates. Earning a good return is evidence of health. It's like the big pumpkins and squashes at the county fair—evidence of good cultivation. It's the little shriveled-up pumpkins that should alarm us. Nobody shows off the shriveled-up pumpkins.

3. *A transportation policy fair to all.*

There is no doubt that our present transportation policy in this country is "loaded" against the railroads. That's part of the 19th century thinking. Railroads get paid less for hauling 94% of the mail of this country than planes do for carrying 6%.

We all know the tax story. The railroads, like most every other business, pay their taxes in accordance with Federal, State and local government levies on all their facilities. The total tax bill of the nation's railroads in 1948 was well over a billion dollars.

Other Carriers Should Pay Their Way

Proportionately high tax burdens are not shouldered by competitive air, water and other surface carriers. They are, in the main, operating with municipal, county, State or Federal facilities that are paid for by taxes. The carriers pay only modest rental or franchise fees. We find therefore that some of the tax money paid by the railroads is devoted to the construction and maintenance of facilities used by competitors.

The point is that a transportation policy loaded against the railroads is loaded against railroad employees. It is their security which is threatened. It is *their* opportunity for advancement and increased earnings which is weakened.

4. *A competitive approach to railroad services.*

Railroads are today forced to perform services and maintain facilities which cut deeply into their earnings—into the pie which the employees must also consider his. They are services and facilities which the public does not want—as evidenced by its failure to use them. They are services and facilities which others can provide better—and will provide when the railroads are permitted to withdraw them.

Railroads are barred from good competitive practices common to every other carrier—things like quantity rates for shipping.

Railroads are required to do things no other carrier is required to do—take every kind of freight offered, for example.

Four-Point Program Is Suggested

All of this is 19th century thinking. We need 20th century thinking.

There are a great many other improvements which are called for—in the interests of employees and investors. Many of these improvements can be obtained—perhaps promptly—with the help of 1,300,000 railroad employees backed up by 1,900,000 investors.

Now, how do we proceed?

Any program, it seems to me, involves these elements:

1. We agree that the problem is first and foremost a human problem—a problem involving the thinking of large groups of people who have a stake in the railroad industry. It involves me and you and all of us.

2. We agree that we can count on the full support and help of 1,300,000 railroad employees—backed by 1,900,000 security holders—if we can work out a plan clearly in the long-term and short-term interests of these groups.

3. We begin to develop our case with employees, shareholders and all who have a stake in the railroad industry.

4. We agree upon a plan and proceed to substitute a 20th century attitude toward the railroad industry for the 19th century thinking which restricts railroad managements is so many ways, and to release railroading from some of the shackles which hold back its development.

Can we do all these things?

Why not?

You remember the story of the Scot who asked his girl to marry him. She said: "Yes, Sandy." After a long silence she asked: "Aren't you going to say anything more, Sandy?" He replied: "No—I think I've said too much already."

I think perhaps I have said too much already.

But I can't help feeling that we in the railroad field are living at a time when the materials for a great achievement lie all about us—a great achievement based upon the strong, successful, tested method of free men getting together for the good of all.

Our Economic Position Exceptionally Strong

(Continued from first page)

credible, in our present-day view, is the fact that such a small portion of the brokers' loans came from banks. At the height of stock market speculation in 1929, some three-fourths of it was attributable to other lenders—individuals, business corporations, trading companies, and investment trusts.

The shaky foundations of the speculative structure of 1929 were soon revealed. Looking back, we can see that speculation was more decisive than any other single factor in impairing the economic health of the nation.

Economic Position Exceptionally Strong

Today, in contrast, our position is exceptionally strong; and we can look to the future with the confidence of experience in our ability to maintain that strength. Speculation has been virtually absent during our years of postwar prosperity.

Each of the recessions in our business history has been featured by heavy liquidation of speculative accounts; and the absence of this feature today is, to my mind, the most striking element of contrast with previous periods.

A second factor today which is in almost equally sharp contrast to the past, is the gradual process of the postwar adjustments to normal competitive conditions. Business recessions in the past were largely unforeseen. They owed their severity to a simultaneous readjustment of many phases of the economy.

But the situation is different now.

Adjustments to a more normal competitive economy have actually been going on since the very close of the war. Many have been practically completed. Some luxury industries were affected in 1946. Machine tools, auto tires, radios, and others followed in 1947. Textiles, shoes, auto trucks, furniture, household equipment, and various other industries started their adjustment in the Spring and Summer of 1948. Others, such as rayon and crude petroleum, have more recently fallen into line.

The factors which I have just cited—the absence of speculation and the gradual readjustments which have taken place in the economy—are only two of the many elements of strength in our present situation.

Consumer Buying Supported by High Incomes

It is extremely reassuring to note that consumer buying, for example, is being supported by continuing high income levels and by a backlog of savings which has reached an all-time high. Personal incomes in March of this year—the latest figure available—were at an annual rate of $214 billion, a little below the all-time peak of last December, but well above the level of a year ago. Liquid assets of individuals—which is just another name for stored-up purchasing power—amount to $200 billion at the present time.

I could cite more statistics. But all point in one direction: There are powerful factors in our present situation making for stability and progress on a high-income, high-employment level.

And there are evidences other than statistics.

We are only at the beginning of our peacetime growth. We have made a start only toward developing new products based on the wartime discoveries in new materials, new manufacturing techniques, and new types equipment.

One wartime development alone — atomic energy — could revolutionize our economic life within a relatively few years. The use of light metals and their alloys is growing in importance. The field of synthetics affords unlimited possibilities for new products. Developments in home construction and home equipment offer tremendous opportunities for new consumer markets. More efficient farm machinery is being developed constantly and new fertilizers and chemicals for farm use are coming on the market.

Up to now, our factories have been so busy supplying the goods which could be most quickly produced, in order to fill accumulated demands, that they have not had an opportunity to re-gear their machinery to the manufacture of new products. With the return to normal buyers' markets, our producers are beginning to use the new processes available to them. The opportunities are enormous. The discoveries and industrial developments of recent years provide a springboard for a new era of progress.

When I spoke to you at Atlantic City last year, I reviewed our public debt management operations during the postwar period to show you how our fiscal and monetary policies were directed toward achieving stability in the economy.

Flexibility in Debt Management

Our debt management operations in the past year have been a continuation of our program of maintaining confidence in the credit of the United States by promoting stable financial conditions and a stable economy.

It has been our aim to keep our policies flexible so as to be in a position to deal rapidly with the changes in the financial picture. The desirability of such flexibility has been forcibly demonstrated in the year that has elapsed since your last annual conference. During the early part of the last half of 1948 there were large market sales of government securities. In this situation we moved to prevent the prices of government securities from falling sharply by open-market purchases. The situation has been reversed. Since the beginning of the year, government securities have been sold by the Federal Reserve in order to keep government bond prices from going up too sharply.

The need of flexibility is important in public finances, as it is in private finance. The fiscal problems of the nation have changed greatly from period to period, as have the problems of private enterprise. The fiscal tools of one period have generally proved unsuited to a subsequent period.

I have just said that our most important objective during the postwar period has been to maintain confidence in the credit of the United States. One hundred and fifty years ago the main financial problem of the newly born nation was to establish that credit. The history of savings banks is almost as long as that of the nation—the first savings bank was established in 1816—and in many respects, the problems of your institutions have paralleled the fiscal problems of your country. You were attempting to build up confidence in your newly founded institutions at nearly the same time that the nation faced the same problem.

We have been able in our recent debt operations to keep our policies flexible because the structure of the debt has been adaptable to flexibility. This is not accidental. To a large extent it is the result of forethought—the result of planning government issues to meet the present and future needs of the various investor classes.

The existence of a large volume of short-term debt, with the necessity of refunding some $50 billion of maturing government securities each year, has been one of the debt management problems faced by the Treasury since the end of the war. But the very existence of a large volume of issues maturing each year has made possible a flexible debt policy. During the two years in which we had Federal budget surpluses, we were able to select for retirement those portions of maturing debt, the retirement of which would make the maximum contribution in stabilizing the economy. During the past year, although we have not had a budget surplus, we have nonetheless been able to retire portions of maturing marketable issues from the proceeds of the sale of nonmarketable debt issues.

Due to the change in the budget picture this past year, we have not been able to continue the debt reduction program that I outlined to you at your last annual meeting. The total amount of debt outstanding has been reduced by only $750 million since last year. During this period, however, we have continued to widen the distribution of the public debt. There has been an increase of over $2 billion in the amount of government securities held by nonbank investors.

One of the principal sources of funds for effecting the switch of government securities from bank to nonbank investors has been an increase of about $1½ billion in the amount of government securities held by individuals. Most of this increase has been in holdings of savings bonds, and we have had to do a selling job to achieve this success.

When I spoke to you last year I asked your cooperation in the Security Loan Drive—a savings bond selling effort which we were undertaking at that time. Now, I should like to ask for your continued cooperation in the Savings Bonds Opportunity Drive which will start next Monday. Our savings bond program is important to the successful continuation of our public debt management program. It is an important tool which we have for use in maintaining a flexible debt policy.

But our savings bond campaigns not only sell savings bonds, they sell something else which is of direct and important significance to you. That is the habit of thrift.

Our saving bond program, year after year, has been carrying on the most extensive campaign for savings that has ever been known.

Savings bond advertising reaches into every city and village. It searches out remote farms. It goes into homes and factories. It is in the newspapers and magazines, on the radio, and on television.

You must have been struck, as I have been, by the interesting and persuasive angles which have been used to present the case for savings. Regular savings have been urged to provide for the future. That is the theme of all the advertisements, and the carefully chosen keynote of the advertising campaigns. And, all of the advertising is freely contributed.

Our advertising complements, rather than detracts from, the promotional campaigns which savings banks and other financial institutions carry on. Your group recently released a film short "as part of a program to improve public understanding of the function of a savings bank in its community" which is entitled, "'A' for 'Achievement'." I believe that our savings bond program rates an "A" for "Achievement" in promoting thrift.

As I told you last year, it does not seem to me that we are selling savings bonds at the expense of other savings institutions. I believe that the Treasury's continued campaign during the years since the end of the war has brought far greater gains in all major categories of individual savings than would otherwise have been realized. Sales of savings bonds have been much better than we had reason to expect after the war ended.

But other types of savings have done even better.

Liquid Assets of Public Growing

Let us look at the figures for other types of liquid assets held by individuals. In 1948, it is estimated that total holdings of liquid assets held by individuals rose by approximately 1 billion dollars, and at the end of the year stood at an all-time high.

When we look into the actual savings operations which went to make up this total, and carry the figures back over the three-year period following the end of the war, some interesting developments become apparent.

Holdings of government securities by individuals rose nearly 4½%. But individuals increased their share holdings in savings and loan associations by about 48%, the largest gain of any type of savings. Their deposits in mutual savings banks increased 20%. Savings accounts in commercial banks were up 18%. Postal savings accounts showed an increase of nearly 14%. Checking accounts of individuals gained 11%. Of the various forms of liquid assets, only currency holdings in the hands of individuals fell off.

The savings record which I have been citing is one which I know is familiar to all of you here. In my belief, however, its significance can hardly be overemphasized.

Americans are saving for the future. They have confidence in what the future will bring—for themselves, and for their children. The mutual savings banks, with more than 19 million depositors, have been a powerful factor in molding the thrift habits of the nation. The savings drives of the war years, as well as those since, have benefited immeasurably from the backlog of good will which has come from your long history as a trusted guardian of the people's savings.

In closing, I should like to thank you, in particular, for the constructive assistance which you have given the government at all times during the 18 years since your conference last assembled here in Washington. I have welcomed your interest in fiscal affairs since I came to the Treasury and have found your advice of inestimable value. Your record during these years is ample evidence that you will continue to be a bulwark of financial strength in the nation now and in the generations ahead.

Adequate Bank Capital— Not a Serious Problem

(Continued from page 21)

FDIC 1947. The capital of insured banks, the first line of protection against losses, was more than 6.5 times these substandard assets.

The FDIC presents a table showing that its capital and surplus in 1934 amounted to 0.73% of total deposits in insured banks, whereas in 1947 it amounted to only 0.65%.

This is misleading for two reasons. It compares FDIC capital with **total deposits of insured banks** instead of **total of insured deposits.** The latter, a much smaller total, is the measure of risk and not the former.

The failure of the FDIC capital-bank deposits ratio to rise is due to the great increase in deposits during the war with most of the increase occurring in deposits in excess of $5,000.

The failure of the ratio to rise is further due to the repayment in 1947 of $139.3 million of capital stock subscribed by the Federal Reserve Banks at the time of FDIC organization together with a repayment of $47.4 million, part of original FDIC capital, subscribed by the United States Treasury. Had this capital been left in the FDIC the ratio of capital funds to total deposits of insured banks would have been 0.77% instead of 0.65%. With the decline in the deposits of insured banks which has occurred during 1948 and the payment of another year's assessments, this ratio is now higher than it has been at any time since the establishment of the FDIC.

"Severe Business Depressions and Crises"

A final argument of limited validity is the allegation that business failures during the period since the formation of the FDIC have been below normal, that the period 1934-47 does not provide a true test of the risks to which the banking system is exposed over a longer period of time. Citing the compilation of Dun & Bradstreet, the FDIC states that "The normal rate of failure among business enterprises prior to 1934 was from 85 to 110 per year per 10,000 concerns; the average of the annual rates during the 68-year period, 1866-1933, was 99 per 10,000 concerns. During the 14 years since the beginning of deposit insurance in 1934, the annual rate has never been higher than 70, and has averaged 40 per year per 10,000 concerns.

"The remarkably small number of bank failures since the inauguration of deposit insurance, and especially during the past five years, is attributable chiefly to the prevailing conditions of recovery and prosperity and the favorable circumstances under which all business enterprises have operated. The extraordinarily low rate of business and bank failures of recent years cannot be expected to continue indefinitely. In the past, severe business depressions and crises have come swiftly and without much warning. Estimates of future disbursements or loss by the Corporation cannot, therefore, be based upon the experience of the past few years."

Although this statement implies some skepticism of the future outlook as painted by other government agencies assume that it has merit. If the actuarial evidence of the past must be discarded on the ground that future risks are greater than those which have been incurred in the last three-quarters of a century, it is nevertheless proper to explore other methods of maintaining that annual increment in the capital of the FDIC which the management of that Corporation deems desirable.

Blocked Assets of Member Banks

The 12 Federal Reserve Banks are owned **in toto** by the member banks. The latter have paid in for the stock of the Federal Reserve Banks an amount equal to 3% of their own capital. On this paid-in capital they have quadruple liability while their return is limited to 6% of the amount actually paid in. These 12 Federal Reserve Banks have been profitable, particularly during the last two years. This is largely due to the fact that the Federal Reserve Board, under discretionary statutory authority, has frozen substantial portions of member bank assets in the form of reserves against deposits.

The member bank reserves the 12 Federal Reserve Banks have invested in government securities, thus depriving the member banks

of any return on these blocked deposits which the member banks must nevertheless service.

When the Federal Reserve System was first established reserve requirements for country, reserve city and central reserve city were respectively 7, 10, and 13%. On time deposits required reserves were 3%. These ratios prevailed until Aug. 15, 1936. At that point the established character of a bank reserve as an assurance of minimum liquidity was abandoned in favor of its use as an instrument of credit control. These reserves have since lost all contact with their orthodox function. **Although banks are definitely more liquid today than they were when the Federal Reserve Act was passed, required reserves in relation to deposits are actually more than twice as high. Of the $20 billion in member bank reserves held by the 12 Federal Reserve Banks at the end of 1948 more than half represents an arbitrary isolation of member bank earning assets which finds no justification in sound banking theory.**[1]

Income on Blocked Assets

Thus the institutions which the member banks wholly own have become instruments for implementing "modern" doctrines of economic control at a cost to the owners equal to the earnings on not less than $10 billion of assets.

According to the FDIC the average rate of income on securities held by insured commercial banks was 1.60% in 1947. Assuming these sterlized assets of member banks amounting to $10 billion were invested at this rate, the member banks would have had an addition of $160 million to their operating earnings in 1947.

It is a curious coincidence that the 12 Federal Reserve Banks in 1948 paid the U. S. Treasury $166,690,356 as "interest on outstanding Federal Reserve notes." What this amounts to is a special discriminatory tax upon the member banks of the Federal Reserve System. **It constitutes a penalty for membership in the system, a penalty which has no demonstrable relation to sound banking.**

Nothing in the discussions preceding passage of the Federal Reserve Act or in Congressional debates ever contemplated the arbitrary deflection of Federal Reserve Bank earnings into the Treasury. This was achieved by the Federal Reserve Board in April, 1947 through a special and strained construction of Section 16 of the Federal Reserve Act. The authors of the Act never intended that the statute would become an instrument for the imposition of a discriminatory tax upon the country's banks. Certainly they never believed the Federal Reserve Board would use its broad discretionary authority in a manner that would weaken the banking system and predispose it to socialization.

Justice would be better served if this "interest on outstanding Federal Reserve notes" were paid to the Federal Deposit Insurance Corporation in lieu of any further assessments on insured banks.

Such an arrangement would permit the banks to increase capital out of earnings, raise the ratio of capital to risk assets, improve the appeal of bank stocks to investors and promote successful sale of new bank equity issues. It would thus remove the grounds for FDIC apprehension that "The smallness of the capital equities of banks" jeopardizes the safety of bank deposits.

It would insure the continued operation of our banks under private management. It would remove the suspicion of a calculated conspiracy designed to undermine our banking structure and promote its socialization.

1 *Editor's Note:* The Federal Reserve Board announced April 28 a slight reduction in minimum reserve requirements of member banks, effective May 5.

The State of Trade and Industry

(Continued from page 5)

on the current steel rate, they are on the probable outcome of labor negotiations and the outlook for steel business the last half of this year, concludes "The Iron Age."

The American Iron and Steel Institute announced this week that the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 95.6% of capacity for the week beginning May 16, 1949, as against 96.2% in the preceding week, or a decline of 0.6%.

This week's operating rate is equivalent to 1,762,400 tons of steel ingots and castings for the entire industry, compared to 1,773,500 tons a week ago, 1,814,000 tons, or 98.4% a month ago, and 1,719,600 tons, or 95% of the old capacity one year ago and 1,281,210 tons for the average week in 1940, highest prewar year.

CARLOADINGS DECLINE IN LATEST WEEK BELOW PREVIOUS WEEK AND LIKE PERIODS OF 1948-1947

Loadings of revenue freight for the week ended May 7, 1949, totaled 768,337 cars, according to the Association of American Railroads. This was a decrease of 17,107 cars, or 2.2% below the preceding week. It represented a decrease of 111,950 cars, or 12.7% below the corresponding week in 1948 and a decrease of 115,905 cars, or 13.1% below the similar period in 1947.

ELECTRIC OUTPUT FALLS FOR 15th SUCCESSIVE WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended May 14, was estimated at 5,256,976,000 kwh., according to the Edison Electric Institute. This represented a decrease of 26,616,000 kwh. below output in the preceding week, 148,303,000 kwh. or 2.9% higher than the figure reported for the week ended May 15, 1948 and 640,993,000 kwh. in excess of the output reported for the corresponding period two years ago.

AUTO OUTPUT LAST WEEK CONTINUED TO BE ADVERSELY AFFECTED BY LABOR DISPUTES

Production of cars and trucks in the United States and Canada for the past week declined to an estimated 116,563 units, compared to 130,113 (revised) units in the week preceding, due to continued strikes, "Ward's Automotive Reports" states.

This week's prospects were considerably brightened by settlement of the Motor Products Corp. dispute, which cut 8,500 units from Chrysler's output last week, Ward's said. This supplier furnishes ventilating windows, instrument panels and metal trim details to Hudson, Studebaker, Kaiser-Frazer and Chevrolet, as well as to Chrysler, it added.

The total compares with 83,275 units a year ago and 127,255 in the like week of 1941.

Last week's output consisted of 89,534 cars and 20,374 trucks built in the United States and 4,190 cars and 2,465 trucks in Canada.

Production of cars and trucks in the U. S. for the year to date is estimated by Ward's at 2,169,000 units, compared with 1,892,000 in the like period of last year. Canadian production to date is estimated at 92,000 units, compared with 95,000 last year.

BUSINESS FAILURES LOWER FOR SECOND CONSECUTIVE WEEK

Commercial and industrial failures continued to decline in the week ending May 12, falling to 171 from 193 in the preceding week Dun & Bradstreet, Inc., reports. This was the smallest number of casualties in seven weeks, but exceeded the 100 and 98 which occurred in the comparable weeks of 1948 and 1947. Failures remained far below the prewar level with a total of 321 reported in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more declined to 133 from 158 last week, but were higher than a year ago when 81 occurred. Small casualties with losses under $5,000 increased slightly to 38 from 35, doubling the number in the similar week in 1948.

Manufacturing, construction and commercial service accounted for most of the week's decline. In the trades, retailing failures dipped while wholesaling increased slightly.

The Middle Atlantic, East North Central and Pacific States reported declines, while New England and the West South Central Region had the only sharp increases in casualties, reporting twice as many as in the previous week. Considerably more failures occurred than a year ago in all areas except the Mountain District.

FOOD PRICE INDEX TURNS DOWNWARD FOLLOWING MILD RISE A WEEK AGO

The wholesale food price index, compiled by Dun & Bradstreet, Inc., moved slightly lower last week following the mild advance recorded a week ago. The May 10 figure at $5.68, compared with $5.71 a week previous, and represented a drop of 18.0% below the comparative 1948 index of $6.93.

The index represents the sum total of the price per pound of 31 foods in general use.

COMMODITY PRICE INDEX DEVELOPS LOWER TREND IN PAST WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved in a rather narrow range during the past week and closed slightly lower than a week ago. The index registered 248.04 on May 10, compared with 248.54 on May 3, and 284.82 on the corresponding date of last year.

Movements in leading grain markets were irregular with volume of trading below that of a week ago. After early weakness, the May wheat contract recovered and closed with a moderate net gain, reflecting a tightening in that delivery. Cash wheat was rather dull with price trends mixed.

Moderate government buying of cash wheat was a supporting factor at times. The outlook for the winter wheat crop continued favorable, aided by generous rains over a wide area of the belt.

The corn market was under some pressure with prices in both the futures and cash markets reflecting slight declines for the period. Receipts of corn from the country were comparatively light while the movement into the government loan was said to be increasing. Corn planting and preparations were reported well under way in many sections. Oats displayed considerable steadiness with prices rising slightly, aided by good demand for the heavy varieties.

Cocoa showed further weakness, with spot prices down 1½ cents per pound during the week.

Depressing influences included slow manufacturer demand and large spot offerings, coupled with sizable arrivals from West Africa.

The domestic flour market continued slow with trading restricted to current and nearby needs. Coffee was stronger at the week-end, reflecting a steadily improving statistical position. Lard prices turned downward but all classes of livestock showed comparative steadiness.

Cotton markets developed irregular day-to-day trends but values at the end of the period were slightly higher than a week ago.

Firmness stemmed from reports of new foreign allocations by the ECA and a last-minute rush to enter cotton into the government loan.

Volume of sales reported in the ten spot markets fell to 95,400 bales, from 111,900 the previous week, but were more than double the 41,200 reported in the corresponding week a year ago. Loan entries from the 1948 crop during the week ended April 28 rose to 61,800 bales, from 35,900 the previous week; repossessions fell slightly to 51,200 bales. Total loan entries for the season through April 28 amounted to 5,171,600 bales. Total repossessions for the season were 807,100 bales, leaving 4,364,500 bales under CCC loan as of April 28. Crop reports indicated excessive rainfall delayed planting throughout most of the belt.

Prices for nonferrous metals continued to sag with new reductions announced in both primary metals and related fabricated products. Copper was cut ½-cent to 18 cents a pound, marking a total decline of 5½ cents from the postwar high of 23½ cents. Lead showed a further drop of 1 cent and zinc ½-cent in the week.

RETAIL AND WHOLESALE TRADE FAVORED LAST WEEK BY WARM WEATHER BUT CONTINUES BELOW 1948 VOLUME

Stimulated by warm weather and by special promotions, shoppers increased their purchases in the period ended on Wednesday of last week. Total retail dollar volume was slightly below that of the comparable week a year ago with most shoppers continuing to concentrate largely upon the moderate-priced goods, states Dun & Bradstreet, Inc., in its current survey of trade.

There was a moderate rise in the demand for apparel last week, but it was slightly below that of the similar week last year.

Interest in summer apparel rose noticeably as temperatures climbed in many areas and women's cotton dresses, lightweight suits, short-length coats and sportswear increased demand. Hosiery, blouses, slippers and other accessories were purchased by many consumers for Mother's Day gifts. Interest in men's summer apparel also increased slightly.

Retail food volume remained steady at a high level the past week with unit volume approximately even with that of the corresponding week in 1948. Housewives continued to purchase substantial quantities of meat. Smoked meats, beef and pork products were popular. The supplies of fresh fruit and vegetables increased in many sections during the week. Interest in candy and fancy baked goods rose moderately.

Shoppers bought slightly more furniture and housewares than in the previous week.

Among the best-selling home items in many areas were bedding, upholstered chairs, small tables and floor coverings. The retail volume of china, giftware, cutlery and kitchenware increased slightly. The demand for refrigerators rose moderately. Hardware, decorating materials and garden supplies were in large demand.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 1% above to 3% below that of a year ago.

Regional estimates varied from the corresponding levels of a year ago by the following percentages: New England unchanged to down 4, East, Midwest and Southwest down 2 to up 2, South and Pacific Coast down 1 to down 5 and Northwest up 1 to down 3.

Many merchants evinced increased interest in seasonal goods in the week. The dollar volume of wholesale orders rose slightly, but was moderately below that of the corresponding week a year ago. The number of buyers attending many wholesale markets rose moderately in the week and was noticeably above that of the comparable week in 1948.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended May 7, 1949, increased by 1% from the like period of last year and compared with a decrease of 4% in the preceding week. For the four weeks ended May 7, 1949, sales registered a decrease from the corresponding period a year ago, and for the year to date a decline of 3%.

Retail trade in New York the past week received some stimulus from the warmer weather which tended to increase the demand for summer merchandise. However, dollar volume of sales again dropped below that of one year ago.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to May 7, 1949, declined by 4% from the same period last year. In the preceding week a decrease of 8% was registered below the similar week of 1948. For the four weeks ended May 7, 1949, a decrease of 5% was reported under that of last year and for the year to date volume decreased by 5%.

Francis I. duPont Co. Opens in Miami Beach

MIAMI BEACH, FLA.—Francis I. duPont & Co., members of the New York Stock Exchange, have opened a branch office at 2609 Collins Avenue, under the management of Benjamin Richards. Mr. Richards was formerly Miami Beach manager for Bache & Co. with which he had been associated for many years.

Sam Williams is also connected with the new branch.

G. E. Gilpin With Walston, Hoffman & Goodwin

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—Glen E. Gilpin has become associated with Walston, Hoffman & Goodwin, 625 Broadway. Mr. Gilpin was formerly assistant manager of the San Diego office of Buckley Brothers and prior thereto was with Merrill Lynch, Pierce, Fenner & Beane.

The Readjustment of Business

(Continued from page 2)

awards and in new building starts. Waiting for prices to fall became a major determinant of business conditions. The greater the number of individuals and enterprises who wait for prices to fall, the more rapidly prices are likely to fall and the greater will be the number of persons who postpone buying. At the present time, waiting for prices to fall has probably become the most important single element in business conditions.

III

What is the general condition of the economy? Are there many weak spots, so that the economy is not in a good condition to resist contraction with the result that contraction easily becomes cumulative?

On the whole, the economy is in a remarkably strong position. There are four reasons for this conclusion. One is that debts are low in relation to incomes. Consumer indebtedness, for example, is about 8% of personal incomes after taxes, and mortgage indebtness is low in relation to incomes. Residential mortgage debt, for example, is about 25% of personal incomes after taxes as compared with 35% in 1939. The ratio of debts to liquid assets is also low. In 1939 the debts, both short-term and long-term, of individuals and unincorporated businesses were slightly larger than their liquid assets; in 1948 liquid assets of individuals and unincorporated businesses were two and one-half times their debts. In the second place, the rate of spending is low in relation to holdings of cash and demand deposits. In 1939 expenditures for consumer goods were about 5.9 times personal holdings of cash and demand deposits; in 1948, about 3.6 times. In the third place, inventories are low in relation to sales—partly because of the skill of managements in learning how to operate with small inventories. Finally, the backlog of demand which accumulated during the war has by no means been completely eliminated. The average age at which cars are scrapped is about 12.5 years. In midyear 1948 there were 5.2 million passenger cars over 12.5 years of age and 2.6 million were within one year of this age. Furthermore, the scrappage of cars in 1948 was only about half of normal. Finally, only limited progress has also been made in catching up on the accumulated demand for housing.

IV

How long is the period of adjustment likely to last and how severe is it likely to be? Is it possible that the contraction of business might be fairly severe and fairly prolonged? This would happen if there were a substantial drop in expenditures for durable consumer goods, housing, or plant and equipment. For example, if expenditures by business on plant and equipment, which were nearly $19 billion in 1948, were to drop by a little more than one-third to about $12 billion (the level of 1946), there would be (other things being equal) an additional drop in expenditures for consumer goods (because of unemployment in the capital goods industries), and the gross national product might decline by perhaps twice the fall in expenditures on plant and equipment.

I do not believe, however, that the drop in business is likely to be either deep or prolonged. I know of no way of predicting when contraction will be superseded by expansion. One may state with confidence, I think, that the postponement of the purchase of non-durable or semi-durable consumer goods will not be an important cause for business contraction over an extended period. If there is a substantial drop in these expenditures, it will be because of a fall in incomes originating from other causes. Furthermore, I do not believe that a substantial drop in expenditures on housing or on industrial plant and equipment is likely in the immediate future. The needs are still too great. Furthermore, the advantages of postponing buying are limited. Consequently, decisions to postpone buying usually do not result in deferring purchases by more than six, nine, or twelve months. It is to be noted that a drop in buying which results from a decision to postpone simply means a larger demand some time in the near future. Finally, the contraction of the economy is being limited by large increases in expenditures by local and state governments and by the national government. In 1948 the consumption of goods by government will be $7 billion or $8 billion more than last year and the total expenditures of government will grow by even larger amounts. The rise in spending by governments has not been sufficient to prevent some contraction of the economy. Nevertheless, it has been an important limiting influence. All of these considerations lead to the conclusion that the contraction will not be long or deep.

V

What can be done by government or business to limit the depth of the contraction and to hasten the upturn? Let us first consider what the government might do.

The principal recommendation to be made about government policy is negative. The government should refuse to make the increases in taxes for which the President has asked. These tax increases would produce a surplus of cash receipts over cash expenditures. During a period of contraction such a surplus would aggravate the drop in the demand for goods. The fact that the government was taking away from the people more than it was giving back to them in the form of expenditures would tend to reduce the incomes throughout the economy. Under some circumstances this effect could be counteracted by paying off part of the public debt held by individuals or commercial banks — thus increasing the volume of funds available for investment. At a time when investment is contracting, however, and when enterprises need only very limited amounts of outside funds, repayment of the public debt is not an effective way of getting the government's cash surplus back in circulation. The President has asked for increased taxes on corporations. This would reduce the corporate funds available for expenditure on plant and equipment. To some extent this effect might be offset by corporations increasing the amount of money obtained from the outside. This offset, however, would be quite incomplete. One tax increase, however, is necessary — that is, the increase in taxes for the old age insurance and annuity scheme. A regularly scheduled increase in this tax is due next January. It should not be postponed. Any possible deflationary effect can be offset by liberalizing the old age pensions —a badly needed and long-overdue step.

The government has already taken several steps to encourage lending and borrowing. The greater availability of credit will have a limited immediate effect on the demand for those commodities, such as automobiles, which are in strong demand today. Eventually easier credit will have a more general effect—that is, when the demand for goods begins to pick up, easier credit will permit it to pick up faster.

One of the most useful immediate steps which the government might take would be to stimulate expenditures on plant and equipment by adopting a device employed by the Socialist government of England—namely, allowing 40% of the cost of new plant and equipment to be charged off in the first year after purchase.

VI

What can business do to reduce the severity and length of contraction? The task confronting business is plain. It is one of stimulating willingness to buy. Business has two ways of doing this. One is by bringing out new and more attractive goods, the other is by reducing prices.

Bringing out new and more attractive goods cannot ordinarily be done overnight. Changes in goods take time, and need to be tested out before the new goods are offered to customers. Nevertheless, much can probably be done to bring out new and improved models in the near future because many firms have anticipated for several years an early end to the postwar boom. Consequently, they have been quietly preparing new models and new products to put on the market as soon as sales need to be stimulated.

The main reliance of business in stimulating sales, however, will have to be price cuts. Price cuts have two advantages. One is that they increase the purchasing power of the cash and bank deposits which men hold. Consequently, they encourage people to convert part of these holdings into goods. More important, price cuts make new goods cheaper relative to old goods, and thus encourage people to replace old goods for new. Competition between new goods and old goods is one of the most important kinds of competition in the economy. In a country which has 34 million automobiles and 36 million houses, the prices of new cars and new houses obviously have much to do with the rate at which people discard old cars and old houses. The prices of new goods affect the demand for all kinds of durable goods and even the many kinds of semi-durable goods, because lower prices of clothing, for example, encourage people to buy more new things and to discard more old ones.

Business concerns do not like the idea of cutting prices. It is plain, however, that the prices which were appropriate when individuals were willing to spend $1.21 on consumer goods for every increase of $1 in incomes are not appropriate when individuals raise their expenditures for consumer goods by only 68 cents for every dollar increase in incomes. Many managers will argue that they cannot afford to reduce prices—that their margins are too small. It is true that margins in many industries are small and that, when costs are properly computed, margins have not increased during the last three years. In fact, when corporate profits are properly computed, margins per dollar of sales are only about 4.4 cents. Nevertheless, managements should not decide against reducing prices without taking into account the cost of not reducing them. If prices are not cut, buying will drop and, as it drops, profits will also fall. On the other hand, if prices are reduced, volume will be partly maintained, but margins will be cut—unless efficiency increases.

Business, therefore, has a choice between (1) maintaining prices and sacrificing volume or (2) sacrificing margins and doing a better job of maintaining volume. No one knows under which policy the drop in profits would be less. It is plain, however, that it would be better to sacrifice margins to maintain employment than to sacrifice employment to maintain margins—particularly since the effect on profits in many industries is about the same in either case. Furthermore, a management which has cut prices is in an advantageous position to ask for more efficiency from its organization. When account is taken of the effect of price cuts upon the ability of managements to step up efficiency, one sees that price cuts are far preferable to sacrificing volume in order to maintain prices.

Since the present reluctance of people and enterprises to spend is partly created by the expectation that prices in the near future will be lower than they are today, is it not a mistake to cut prices? Do not price cuts aggravate rather than cure the present difficulties of business? It is true that price cuts introduce uncertainties into the economy and induce some postponement of buying. There is no way of entirely avoiding this effect, but too much importance should not be attached to it. After all, postponement of buying, because of its very nature, cannot go on indefinitely. The very fact that decisions to buy have been postponed means that sooner or later demand will pick up.

VII

Some of the unions believe that the way to bring about a rise in the purchases of consumer goods is to raise wages. Wage increases, say the unions, will raise consumer incomes in relation to prices and thus enable workers to buy more goods. Is not raising wages relative to prices the same thing as reducing prices relative to wages? Would not wage increases have the advantage in comparison with price cuts that they do not arouse the expectation of lower prices and thus temporarily stimulate the postponement of buying?

Wages will rise somewhat this year in some industries, but wage increases under present conditions will not be particularly effective in sustaining the demand for goods. In other words, raising wages relative to prices is not equivalent to reducing prices relative to wages. There are two important differences. One is that price cuts increase the purchasing power of the cash and bank deposits which men hold. Consequently, as I have pointed out, they encourage people to convert part of these holdings into goods. More important, price cuts, as I have also pointed out, make new goods cheaper relative to old goods, and thus encourage people to replace old goods with new. I have emphasized that competition between new goods and old goods is one of the most important kinds of competition in the economy.

Any rise in wages relative to prices (or drop in prices relative to wages) has some tendency to cause employers to drop the less profitable parts of their lines and some of their less efficient workers. Hence, under present conditions, wage increases at the best will not produce much rise in consumer spending and they may produce no rise at all. Furthermore, if wages are increasing faster than efficiency, the increase will reduce the incomes of business concerns. This will mean that enterprises will have less to spend, and the drop in business spending will be accentuated. Consequently, wage increases may fail to increase total spending and may reduce it.

The tendency for price cuts to cause employers to drop the less profitable parts of their lines or their less efficient workers or to spend less on plant and equipment is limited by the tendency of price cuts to bring about a larger physical volume of sales, and the employer who is selling more physical units because he has reduced prices is not in a position to lay off workers. Furthermore, the employer who is getting a good volume of orders is less inclined to cut his expenditures on plant and equipment to a minimum. Consequently, price cuts under present conditions are preferable to wage increases as a method of stimulating business.

VIII

Can business stimulate spending sufficiently to produce an early and vigorous upturn in production and employment? I do not know. Certainly conditions are favorable. As I have indicated, people are well supplied with cash, bank deposits, and other liquid assets, and indebtedness is small. The principal obstacles in the way of a rise in consumer buying are (1) that consumers have satisfied a large part of their most urgent needs and (2) that many persons are disposed to wait for the quality of goods to improve and for prices to drop. Certainly these obstacles are by no means insurmountable. Back in 1945 and 1946, when industry was shifting from wartime production to peacetime production, business surprised the country by its ability to maintain a high level of employment. Cannot business do an equally good job in 1949? Half of the job is seeing clearly the nature and the magnitude of the problem. An increase in consumer expenditures of 5% over last year will make it possible for the country to maintain full employment for a larger and more efficient labor force than it possessed last year. Can American business do a good enough job of improving its products and its salesmanship to induce the people of the country to increase their purchases of goods and thus their standard of living by 5% over last year?

Francis Gallaudet With Jones B. Shannon & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Francis C. Gallaudet has become associated with Jones B. Shannon & Co., Buhl Building. Mr. Gallaudet in the past was an officer of McDonald, Moore & Hayes, Inc.

Grimm & Co. to Admit William T. Baker to Firm

Grimm & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, will admit William T. Baker, a member of the Exchange, to general partnership, and Alice P. Baird to limited partnership on June 1. Mr. Baker has recently been active as an individual floor broker.

On May 31, Lester Talbot, member of the Stock Exchange, will retire from partnership in Grimm & Co.

Hexter & Co. Formed

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CAL.—Hexter & Co. has been formed with offices at 8943 Wilshire Boulevard to engage in the securities business. Officers are Richard K. Hexter, President; Carlyn N. Hexter, Vice-President, and Martin J. Weil, Secretary. Richard K. Hexter was formerly with C. E. Abbett & Co. and Carter H. Corbrey & Co. In the past he was President of Investment Fund Distributors of Los Angeles.

Hamilton Keller Is With Paine, Webber Firm

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Hamilton C. Keller has become associated with Paine, Webber, Jackson & Curtis, 626 South Spring Street. Mr. Keller for many years was with Wagenseller & Durst, Inc.

Selling Investment Company Shares

(Continued from page 4)

additional planning to share in the profits of American industry.

For the man who wonders where to go, I would suggest that you take a peek at this type of operation, find out how the Social Security plan works, go to see Mrs. Brown, or Mr. Jones, or whoever else you can think of, and see if you can't render a service. Because it is in service that you will find successful selling.

Advice to Older Men

Now, getting a little bit on to what the older men can do to help, I have found one little gadget here to be very successful in the closing of substantial orders, and also on average orders. You know, in Keystone we have about 51,000 people who use these funds —more to-day than at any time in history—and the average in Keystone is rather high, higher than the industry in general, more than $3,000 per person. And one of the reasons I think that Keystone has been successful is that we have a constructive suggestion to offer to about every prospect we contact.

Now, if you think of what you can do with money, you will find that you can do about four things. First, you can put money to work for reserves, second for income, third for income and growth, and fourth for growth, or appreciation, or speculation. When you call on a prospect, it is important to find out what he wants. And if you have difficulty in getting to the point, show him this little gadget, the things you can do with money, and ask him which he prefers to participate in.

It may be income. If it is, don't try to sell him. Try to educate him, try to assist him. And if you just turn over this page, you will find there for income certain classes of securities available; point out to him the diversification possible in those different classes. If it is income and growth, fine. If it is growth, here are some more classes. And if it is reserves, here is a class known as B-1, B for bonds, and 1 for quality, where he can set aside a portion of his funds in Government bonds and pretty good corporation bonds. We have found this little gadget, called the Security Selector, to be very beneficial in establishing business and closing business.

Planning Investment Program

Now, there is one other thing I would like to add. After you have found out what the man wants, then the next thing to try to find out is what securities he has. We have been talking about plans and methods up here. We have three specific, tangible tools or methods to obtain the final result. We have the second thing, to which I will refer as a block or capital sheet, and again you have a repetition of the four points that I talked about with reference to money; (1) reserves, (2) income, (3) income and growth, (4) growth. And they are all capitalized up here.

Take the man's list of securities and put the different securities in the different classes. If you don't do that yourselves and for any reason you would like to know how, it is part of the service that we render. We assist you in planning out his account. So you come to the second point and you have a list of securities, what the man holds.

Then you come to the third one. Having known what he wants and what he has, then you come back to him on the third visit and you point out to him a planned investment program, personalized, with his name and with your name, with a list of securities in the plan, and in this particular case with a check every month in the year.

Men who work on this—successful security salesmen who work on this—have units of sale that are much higher than the average man who goes out just for the purpose of selling securities. You are rendering a service on this report, this type of report.

The interesting thing is that Keystone itself is so varied in its scope that you can use so many different types of securities, so many different approaches to interest your prospect. This takes a little time; you have to be a little more patient. You probably heard the story of the doctor and the lady in the community, and the lady was talking about the doctor and someone said, "What do you think of him?" and she said, "You know, he takes so much time with me that you would think I was his only patient, and yet he is the most successful doctor in the community." Gentlemen, this will take you a little more time, probably three or four calls, but your job will be done intelligently, it will be done well.

And there is one more thing that is very important with reference to the planning of this type of program, which I am going to use in reference to another piece of literature that I have found to be very effective in the planning of this type of sale, and it involves one thing Harold Danser referred to, and the thing that every insurance company talks about, and that is service.

The average security salesman does not like to go back to see his prospect when the market is down. And if it is a Monday morning, and raining, and the market is down and the news is bad, that is the time he doesn't want to go back and wishes he were in some other business. This type of presentation does three things. It causes a man to sell intelligently at the start in such a way as to talk with his client on three points. First, the market is going to go up; second, it is going to stand still, third it going to go down. "And I want you to know, Mr. Brown, that regardless of what happens to the market, I am going to come back to see you every three months as a matter of service just to check your account."

Now, in this type of presentation, in the so-called planned investment program, the investor gets a check every month in the year. And if the market is up, the salesman goes to see him and suggests one move, if the market is down—and there is a guide on it to indicate when the market is down, using the Dow Jones industrial average—he calls on him at this level, and if the market is standing still, as it has been for some little while, he calls on him just as a matter of service, to post him on what is going on.

So, gentlemen, I would suggest to you that if you want to use that so-called service point, take a look at this presentation here, called an "Investment Program for These Times." It will cause you to go back to see your prospect regularly, and you will find the by-product of this call, this service call, of such a nature that it will pay off, as Harold Danser and every other successful salesman knows.

Case of Successful Salesman

Now, if I may, I would like to give you two or three examples of successful salesmen on investment company shares in this area. I have in mind one man who is about 50, who took time out to study the investment company field, study its growth and development, and who decided to work on our particular phase of the industry, namely Keystone.

He decided that he wasn't going to go beyond one hour's driving distance of his home. He decided that he was going to service those people regularly. He decided that every time he made a sale, he was going to deliver the securities in person to the prospect. And he tried it for two or three months, and it was kind of rough going. It is always rough going when you start.

And he came across a man who was about as difficult a prospect as I know of, and in calling on this prospect, the man told him that he had made about a million dollars in the market, that he had always been successful with securities; that he went to the Supreme Court of the United States at the time of the Standard Oil case in 1912 and studied oil subsidiaries, and he bought oil stocks, and from that time to this he spent his money buying more oil securities, and the last thing in the world he was going to do was take the advice of a broker. And even more than that, he wasn't going to pay 8% to buy any trust.

Well, that salesman, as every salesman in Keystone is, was trained to leave a constructive suggestion, regardless of the barrage that came about in opposition. And here is the turning point of the $100,000 order in this case from the man who said he wouldn't buy, one simple question: "Mr. Brown, I don't think I can help you. As a matter of fact, I don't think my firm could help you make a million dollars, and if we could, I wouldn't be here selling you, or trying to sell you. But I would like to ask you just one question, and the question is this: Do you think your wife and family know as much about securities as you do? Do you think they would know when to buy and sell oil stocks as well as you do? Or do you think this idea of a check every month, not for you but for your family, would be of interest?"

And he said, "What do you mean by that?" Well, the salesman told him the story and the man said, "Draw up a chair and talk about it a little more." Then he cut short the interview and told him to come back. He came back a little later and the man wanted to know more about it. So at the end of two or three hours the client, the prospective client at the time, said, "You know, it interests me."

Then the salesman came to the clincher, and he said, "Why don't you buy $100,000 of Keystone Funds today, and save about $25,000 in taxes?" And the man said, "How do you work that out?" And the salesman said, "Well, if you were to die, the inheritance tax in your bracket, in the top $100,000, would be about $35,000, whereas if you gave the money away to your family today, the gift tax will be about $9,500."

And at the end of about 20 minutes more, believe it or not, that sale was closed. And the turning point,—not only in that instance but I could tell you dozens of others on that same principle,—don't try to argue with a man; try to find out his problem. And that is where learning the words as well as the music comes in. That salesman was alert enough to turn that conversation his way, and the result was the $100,000 order in Keystone.

That tax point reminds me of another salesman who is moderately successful, and who considers tax information and tax assistance to be a twin sister to successful security selling. He told me the other day, when he came in with a $4,500 order, that he got it through tax assistance, very simple tax assistance. He said he had 280 accounts, and 80% of them were obtained by rendering some kind of tax assistance.

And specifically, all this man does is two things. Once an investor buys a particular fund, he sends out the arithmetic about his taxes and the line on which to report the taxes to the investor. And then, thereafter, he services him by just giving him an ordinary tax card, the routine information. And if he can, without posing as a tax expert, he assists the investor in making out the account. If any real problem comes up, he doesn't touch it with a 10-foot pole; his purpose is to assist the investor.

And this man—and all salesmen can't do it—this man has over 280 accounts, and he obtained 80% of them through that tax approach.

There is one other thing I would like to talk about, and that is with reference to the salesman who makes the most of the accounts that he has on his books. Here is an example of a man who has sold a business man the principle of a check every month in the year. After the man had purchased that check every month in the year, the salesman said, "Well, Mr. So-and-So, I understand that you are treasurer of this plant. You know, in the investment company shares, you can use a profit-sharing plan." And he suggested that to him, and the man took a look at it, and the corporation purchased it.

A second thing, he thought about was an 85% tax exemption for dividends received by a corporation, and the man looked at the problem and bought some bonds on that principle. He learned later that the man was trustee of a church, and he pointed out to him that Keystone has probably 125 to 130 churches and religious organizations that use their service. Then he went to the bank and told the banker about it.

Take Care of Existing Accounts

In other words, from that one account there was radiation in about five different directions. And I have always suggested to salesmen that before they go out looking for new accounts, that they take a look at the ones they have on the books at the present time, because if they are sold well and serviced well, they are the best ones for additional business.

Now, in the Keystone setup we try to make these conversations that I talk about a little more tangible and specific. Some of my friends here know about this literature, because they use this literature regularly, and they have been successful. For example, in talking to a prospect who is a doctor, we use this little folder here, showing that 400 doctors already own about $3 million worth of Keystone. If we are talking to a woman, we show that some 25,000 women use this service and they own about $85,000,000 worth of Keystone Funds. If we are talking with a dentist, we use a little article that a dentist wrote about securities, a copy of which I have here, this type of thing written by a dentist for dentists in a magazine called "Oral Hygiene." If we are talking to a trustee or fiduciary, we have a list of some 1,700 trustees and fiduciaries that use the service.

Selling in Terms of Education and Service

I repeat to you, gentlemen, this type of company must be sold, but it is sold in terms of education and service, of making the other man alert, of making him self-responsive to the suggestions which you have to offer. And you have to make this so simple that the average man on the street can understand the terms.

Now, we have been talking a little bit about the little man. You know, the little man, as well as the big man, doesn't necessarily understand all the terminology you and I use in this business. We refer to the Dow Jones industrial average, but ask the mechanic or ask some of the investors who have obtained substantial moneys recently if they know what the Dow Jones industrial average is. You and I do, the average investor or does, but are we sure the other man does!

One of the most successful salesmen I know never takes anything for granted. If he goes into a shop and the man is using a rule, he tells him that that rule is the measuring unit that he uses to obtain 12 inches, or whatever other purpose he has the rule for. Then he brings into play that in the market there is a certain yardstick or rule known as the Dow Jones industrial average, and that reflects the performance and security price of the representative security issues of the day. And he goes on to another point and to another point, until he makes sure that the prospect with whom he is talking understands every single point.

Make Your Terminology Understandable!

I think, and I think your speakers here on other occasions have brought this out, that it is very important to make sure that the new prospect as well as the old understands the terminology that you and I use. The other day, I was looking at a report by an architect, and the architect had used such words as encumbrance, easement, saddle, and all the other terms they use in building a home.

Well, I have an approximate idea of what some of the things mean, but they don't mean as much to me as a painted picture of a home, and contentment, and independence. We have to paint the picture in terms of what the other man understands, and if we do, we have learned one of the fundamentals of salesmanship.

I don't want to take any more of your time, except to mention two other things, one for the man who is having a little difficulty in getting started and who would like assistance. I would say to you that we have a course, in 12 or 13 lessons, and in each one of those lessons, which will not take you too long to read, you will find some of the suggestions I have taken into consideration here, plus certain others.

A. Kingston Ghegan With Edwin L. Tatro

A. Kingston Ghegan has become associated with Edwin L. Tatro Company, 50 Broadway, New York, City, as manager of the insurance stock department. Mr. Ghegan was formerly manager of the bank and insurance department for Dreyfus & Co. and prior thereto was with Kalb, Voorhis & Co. and Schafer, Miller & Co.

A. Kingston Ghegan

With F. W. Horne & Co.

CONCORD, N. H.—F. W. Horne & Co., which recently removed their offices to new and larger quarters at 18 School Street, announce that Lewis C. Shaw will be associated with the firm.

N. P. Rathvon & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—N. P. Rathvon & Co. has been formed with offices at 1041 North Formosa to engage in the securities business. Officers are N. Peter Rathvon, President; H. H. Rathvon, Vice-President, and Norman Freeman, Secretary and Treasurer.

King Merritt Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Dick R. Linch has become affiliated with King Merritt & Co., Inc., Chamber of Commerce Building.

General Comments by Dealers Anent NASD

(Continued from page 3)

NEWARK, N. J.

I don't think that NASD serves any worthy purpose, not already covered by the authorized functions and processes of the SEC.

SMALL UPSTATE NEW YORK TOWN

I do not object to the 5% as much as all the other useless red tape for which I have to pay for in annual dues.

SMALL UPSTATE NEW YORK TOWN

The NASD or SEC could formulate a simplied system of bookkeeping for all members alike or at least the small dealer so as to make record keeping easier.

BOSTON, MASS.

The NASD is a union which, in years (especially) of high wages and salaries for everyone else in the country, is run by larger competitors—cuts profits of its union members during inflation and is an unconstitutional monopoly.*

HARTFORD, CONN.

Due to competition and in some cases the newspaper quotations, it is impossible to even approach 5%. What other business bases a profit on the cost of material—business always adds all overhead and other costs to cost of material and then adds margin of profit. We are compelled to absorb all overhead and even a great many taxes, social security, and contributions out of the 5%.

NEW HAVEN, CONN.

Although the Stock Exchange firms have been granted several increases in commission rates since the enactment of the Maloney Act, no consideration whatsoever has been given to dealers of unlisted securities whose costs of operation have doubled in the last ten years. We, therefore, feel that the Maloney Act should be abolished. The responsibility of establishing a fixed ceiling of commission rates and profits should be taken away from the Federal Government and placed in the hands of the individual states. Certainly the State of Connecticut, through the Securities Division of its Banking Department, has done an excellent job of governing the unlisted investment business in Connecticut.

HARTFORD, CONN.

No honest investment firm need fear any of the bug-a-boos you attempt to highlight in this questionnaire.

BALTIMORE, MD.

It seems that the NASD spends most of its time as a police or regulatory organization, whereas, it should spend the greatest amount of its time, energy and money promoting the interests of the industry and its members through advertising, study of mutual problems and their solutions, and effective action in Washington. It should work towards cooperation amongst all the branches of the securities business, it should concern itself with the elimination of increased taxes, elimination of double taxation of dividends, excessive regulation of the securities business, reduction of capital gains taxes, the failure of the securities business to attract young men, and other problems which are strangling the business.

BOSTON, MASS.

It [NASD] is an unnecessary expense.*

BOSTON, MASS.

We believe the SEC could do the job better.*

SMALL NEW JERSEY TOWN

I think the NASD should devote its full energies to secure to its members a part of the commissions on big board and curb business, placed by members with Stock or Curb Exchange members. That should be at least one-third of the commission charged by the Exchange member. Such a situation would result in NASD members (over-the-counter dealers) going after listed business. It would prevent them or some of them from being tempted to talk a customer out of buying a listed security, and talking him into buying an unlisted security instead.

NEWARK, N. J.

We are wholly in favor of the right of the NASD to make such rules and regulations governing its members tending to prevent frauds and other practices that may reflect on the honest conduct of brokerage business.

NEWARK, N. J.

Any restrictions on the freedom of markets has an unfavorable effect on the economy of the country.

PHILADELPHIA, PA.

Never have understood your attitude. Should think it would affect your advertising income because you have always worked against the interests of the house trying to operate on a narrow spread.

PHILADELPHIA, PA.

We would not be members were it not for the restrictions imposed, for certainly we gain nothing as members but an unnecessary increase in overhead.*

PHILADELPHIA, PA.

Do not approve of NASD.*

PHILADELPHIA, PA.

Why should the investment firms be limited to 5% profit when every other business can go to 100%? Is this the American way of life? Or is it the intention of the men behind the Washington Iron Curtain to put the capitalistic system on the rocks.*

SMALL PENNSYLVANIA TOWN

I answered No. 1 on the reverse side Yes "with variations." I think some control should be placed upon the habitually "wide profit" dealer, but exceptions should be made for inactive issues and those in the extremely low-priced bracket.

PROVIDENCE, R. I.

We are not sufficiently familiar with the wording of the Maloney Act to express our opinion. It has been our impression that the trouble has been in the interpretation of the intent and meaning of the Act.

PROVIDENCE, R. I.

Measures to discourage and prevent fraud may be justified, but price fixing in any form is bad, whether by government or private association.

ROCHESTER, N. Y.

We are not signing this "Personal Message" because we fear repercussion of our opinion. It's about like doing business in Russia. In our opinion, the NASD is an organization brimming over with communistic principles and ideas. The sooner the "Maloney Act" is cancelled from the statute books in Washington the better it will be for all concerned, not only securities dealers but all small industries. We understand that one of the Directors of the NASD resigned, who lives in Syracuse, due to the fact that he could not tolerate this situation any further.*

UTICA, N. Y.

I was motivated to join NASD on the premise that it was to be a protective organization for Security Dealers, not a new "Police Force" to further cramp the style of decent, honest members.

COLUMBUS, OHIO.

Generally speaking we believe a 5% profit on a "riskless transaction" is ample. However, there are instances where 5% is inadequate. Just don't like idea of being only industry in the country which is regulated as to amount of profit which can be made.*

PITTSBURGH, PA.

I believe the NASD is the best thing that ever happened to the business.

PHILADELPHIA, PA.

We do not think 5% is too much to charge in some cases; in other cases it is **too much** and, in still others **not enough**. We do not think that the NASD has justified its existence. Its annual charges to us far outweigh any advantages we have received. Its compulsion "you **must** join us or we will see to it that you share in no new underwritings" is unfair and stupid. Its assumed authority "has gone to its head." Much of the dishonesty which has come to light in this "Investment Industry" might have been avoided if more care had been exercised by the states in the granting of licenses to new houses and new salesmen. There are too many engaged in this businss who ought **not** be in it.

PHILADELPHIA, PA.

We are members of the New York Stock Exchange, are regularly examined by their examiners, and have to make frequent reports. We do not therefore favor the imposition on **Member Firms** of additional clerical work, and feel that we should be exempted from NASD examination. However, we do believe that non-member firms should be policed either by questionnaire or spot check. Our answer to questions Nos. 2 and 3 should be interpreted in the light of the above.

PROVIDENCE, R. I.

The sender of this has been in the investment business over 35 years—first as a salesman—then as a member of a substantial firm (partner) and now as a sole proprietor and he feels that there is altogether too much regulation and unnecessary detail and expense involved. Policing is not necessary to the extent is is developing.*

PROVIDENCE, R. I.

The NASD was created to "protect" the industry from abuse by the SEC. It has become more autocratic than the SEC. It might be of some value if it would work for the inclusion of good quality unlisted securities with listed securities for credit purposes and matters of that sort. Instead it seems to interest itself primarily in enforcing the 7-day delivery clause which seems to me of doubtful value.

NEW YORK CITY

NASD is superfluous. Not needed.*

NEW YORK CITY

After all these years of NASD and SEC, one can appreciate the feelings of the early Christian martyrs, kneeling before the Royal Box in the arena chanting, "Hail Caesar, we who are about to die, salue you." And brother I ain't kiddin.*

NEW YORK CITY

The NASD is a parasitic body—dues without service or representation—the hell with it.*

NEW YORK CITY

Keep up the battle against this outfit and the SEC.*

NEW YORK CITY

Question No. 3—We are willing to have any regulatory body examine our records and books.

Question No. 4—An unfair and inaccurate question. Why shouldn't an industry regulate itself?

NEW YORK CITY

Question No. 5—In my judgment the one good result which the NASD has accomplished is the discontinuance of granting discounts to non-dealers. Before the NASD it was common practice to grant a concession to large buyers, especially of municipal bonds. In order to meet competition all houses were forced to fall in line. In the course of time many buyers of five and ten bond lots claimed a concession as "large buyers" or "steady customers" and it finally reached a point where a concession was given to anybody who looked honest. I should dislike very much to see this practice resumed.*

NEW YORK CITY

I see no possibility of repeal of the Maloney Act, so believe we should work from within for improvement. What would the SEC do to us in case the Maloney Act were repealed? The whole matter requires careful thought—Am afraid of the Gestapo! *

(Continued on page 37)

*Commented anonymously.

SEC and the Equity Market Stagnation

(Continued from page 9)

sary to stimulate an interest among our middle group investors in equity securities?

I doubt it. More is needed. First of all the investor wants to be assured that his prices are determined in open markets, free of artificial and manipulative influences. He wants to feel reasonably certain that the broker or dealer with whom he transacts business obeys the reasonable limitations of fair practice; he wants either to know about the company in which he invests or to be competently advised about about the company. In either case, whether he gets his knowledge from available sources or is to be competently advised, we need to have an effective system for the dessemination of adequate truthful information about companies.

Investor Protection and Mass Investments

It is the aim of the laws administered by the SEC to bring about these results. Their purpose is not to impede business, interfere with management, or to bring about regulation for the mere sake of regulation. The aim of these laws is to protect the investor; and in so doing they provide an essential condition for the stimulation of mass equity investment.

The basic principles of disclosure and fairness embodied in our laws have become accepted as part of the working code of companies and people with whom we deal. Criticism continues; and much of it we welcome, because it is made in a good faith attempt to improve our service to the investor and to the economy.

Commission Is Equity-Conscious

First, one thing should be clear. With respect to the generality of companies with which we deal, we do not pass on the merits of proposed financing, we do not tell companies what they can sell, or investors what they should buy. Only in certain limited fields are we charged by law with responsibility for passing on proposed financing plans. Our record in the field of public utility holding companies and their subsidiaries should dispel any notion that the Commission is either unaware of or indifferent to the problems of equity financing. We have for 14 years been laboring mightily to increase the equity base of utility companies and to reduce the load of debt under which the electric and gas utility industry groaned when we began our work in the field.

Private Placement

One of the charges I have heard is that SEC regulations have discouraged issuers from seeking access to public markets and have forced them to finance through debt by the private placement of their securities with insurance companies and other institutions. The simple answer to this charge is to point out that last year over $6 billions of corporate securities were offered to the public under registration statements filed with the SEC and subject to SEC jurisdiction.

Against Big Stick

Over 400 separate company managements deemed our requirements fair and simple enough to comply with, and did so successfully. In only two cases did we find it necessary to proceed toward the issuance of an order preventing the financing from taking place because of willful misstatements and omissions in information given about the company. Our tradition is against use of the big stick. We have found in the ordinary case that informal conference and education are ef-

fective means of getting to the investor full and truthful information and at the same time not interfering with financing.

To infer that the more than $2½ billions of corporate securities, which were placed privately in the same period, were sold in that manner because issuers feared the consequences of public disclosure, is to assume that the insurance companies and others who took these issues were foolhardy enough to risk money the company did not dare to get from the public because it was afraid to disclose the facts. Other reasons for the development of private placements adequately explain them. I have indicated these reasons in commenting on the growth of institutional assets and the necessity of institutions to find investment outlets for their accumulations of funds.

I have often heard that the Commission is responsible for the fact that our securities markets fail to reflect the amazing increase in economic activities and profits. We are accused on the ground that we have discouraged speculation, and that it is the speculator who provides both the initial demand for equities and the possibility of continuous and active markets in equity securities. First of all the SEC does not discourage, or encourage speculation. Our laws leave it to the investor to determine for himself what he will and will not buy and how much of his assets he should devote to his securities purchases. To the extent that speculation is willingness to assume a risk, the SEC provides the basis upon which individual risks can be taken. To the extent that speculation means blind buying, the Commission does what it can to get data to the investor. To the extent that anyone thinks of speculation as a dish of trading garnished with a sprinkling of manipulation, he is right in thinking that the SEC discourages it. Under our laws fraud and manipulation are punishable. And these laws are based on the theory that the American economy does not need fraud and manipulation to maintain itself on a sound basis.

Competitive Bidding

Recently we have heard criticism to the effect that the competitive bidding requirements of the Securities and Exchange Commission have tended to impair the market for equity securities.

Before I try to analyze this criticism I would like to point out that the law pursuant to which we regulate the financial affairs of public utility holding company systems requires that we pass upon the reasonableness of the consideration received by issuing companies for their securities and upon the maintenance of competitive conditions in financing. One of the great problems we faced in setting about to administer this law was the traditional affinity of many utility systems with affiliated banking houses, some of whom actually controlled the financial affairs of the systems.

By no stretch of the imagination could it be said that, in the old days, competition prevailed in the marketing of utility securities. Issuers respected their affiliations with particular banking houses, particular banking houses respected their affiliations with particular distribution groups, and as among themselves banking houses tended to respect each others' spheres of influence. After administering the statute for several years on a hit-or-miss basis the Commission adopted a rule, commonly known as Rule U-50, requiring competitive bidding in the sale of securities of holding companies and their subsidiaries under SEC regulation. The rule provides for exemptions so that competitive bidding would not be required whenever conditions make it sensible to permit financing by

(Continue on page 38)

General Comments by Dealers Anent NASD

(Continued from page 36)

NEW YORK CITY

I believe the public should be protected. Perhaps brokers and dealers could more frequently show the commission charged where the transaction is actually one where the security is not held by the dealer for any length of time.

NEW YORK CITY

We feel the NASD is nothing but a hold-up organization made to create jobs at the expense of Wall Street houses. What good it is doing is beyond us! If we *must* have a *union* lets have one for the good of the Street. Sorry I can't sign my name because of previous fights with the NASD who are out for my hide.*

NEW YORK CITY

Maloney Act should be amended to make the NASD a **real democratic** body. Lets act like **Americans,** not **Russians.**

NEW YORK CITY

Between the SEC, NASD, and Blue Sky Commissions in the various States it is a wonder that the securities business has been able to function at all. In my humble opinion, the raising of risk or venture capital is perhaps the most important economic function which our industry performs, and this has become almost an impossibility. The socialization of our country would be complete if government was the source of these equity monies. Perhaps this is the intent. I want to take this opportunity to congratulate your organization on its efforts to bring attention to some of these abuses of power committed by the SEC and NASD.*

NEW YORK CITY

We don't "approve of the NASD" **period.**

NEW YORK CITY

This organization is the result of the Roosevelt Era of "Regulation" when the mania (for red tape and the creation of little dictators) was rife. We consider the dues that we pay as a waste of money. I believe that if some of the leading underwriters were to resign, this little spawn of the New Deal would collapse, as the smaller dealers would soon follow suit.

NEW YORK CITY

Salaries, expenses, taxes, together with devaluation of the dollar, makes the (5%) spread insufficient.

NEW YORK CITY

Almost impossible for small firms to exist after paying salesmen and all overhead . . . particularly in duller markets. Think rule can be amended so "reasonable relationship to market" can be better defined. Think, hwever, industry should be regulated under Martin Act or a similar one, but any act should work two ways.

NEW YORK CITY

Thank you for the fine work you are doing in bringing these things out.*

NEW YORK CITY

The NASD does nothing at all for us. Its functions are superfluous. The SEC does a better job. The NASD should be abolished in the interests of economy of both money and manpower.

NEW YORK CITY

I personally see no reason for the continuance of NASD. Our firm has had not the slightest help because of that organization.

NEW YORK CITY

Unconstitutional.*

NEW YORK CITY

The 5% rule was adopted in 1943 when operating costs were about one-half of what they are today. This means about a 2½% mark-up comparatively today. Because the larger buyer no longer is in the market on account of taxes, concentration must be made on the small investor and in most instances, when small amounts are involved, these transactions are made at a loss.

NEW YORK CITY

Personally I think the bitter opposition of your writer of the articles against NASD ought to have the support of every man in the investment business who is not directly or indirectly benefiting from the NASD—and of the beneficiaries as well—if they are frank.

PHOENIX, ARIZ.

Believe you are wasting your time and ours. We have become very tired of having our mails cluttered up with reprints of your diatribe editorials. Who appointed you dragon slayer?*

SAN DIEGO, CALIF.

My yes vote in most cases is because I believe the good results outweigh the evils involved. I am a Republican and dislike too much regulation in our business; however there is still room for much improvement.

SMALL CALIFORNIA TOWN

We feel quite strongly on these questions and regard the NASD as a sort of NAM or trade union unfortunately dominated by elements not working for the good of the public.

SAN FRANCISCO, CALIF.

Keep up the good work.

OAKLAND, CALIF.

Keep up the good work.

LOS ANGELES, CALIF.

Mark-up is matter for each firm to decide on each transaction.

*Commented anonymously.

LOS ANGELES, CALIF.

Have not answered questions 5 and 6 as we feel NASD may be beneficial to some extent in limiting activities of SEC.*

LOS ANGELES, CALIF.

Our feeling re the "5% mark-up" rule is that in **most** instances a 5% mark-up is excessive for a dealer to charge for what is, in a majority of instances, merely an agency transaction executed as a principal. However, in other instances when extensive research has been made, a bona fide position taken, and a real sales effort has been made we feel that a 5% mark-up may be too small. The circumstances surrounding each transaction should govern.

PORTLAND, ORE.

Re: Question No. 5. We object to dealers trading securities, such as bank and insurance stocks, with banks on the same basis as with member dealers.*

SEATTLE, WASH.

We do not believe the NASD is an unmixed blessing, but they have done a lot of good for our industry. Would not want to do away with it. Of course, I dislike the reports and examinations, but they must have some way of checking members so I guess we will have to put up with them. This is the price we have to pay to keep the crooks and unscrupulous dealers in this business in line.*

SEATTLE, WASH.

We believe the functions of the IBA and NASD could be combined, thereby reducing the expense to dealers.*

SEATTLE, WASH.

Frankly, I think you have been making an ass of yourself on your 5% argument. If you were in the field and saw the benefits to the industry that have accrued as a result of NASD, you would change your attitude. Any dealer that is trying to do an honest job and is not satisfied with the 5% profit better go into a different business.

SEATTLE, WASH.

Re question No. 5, it doesn't make any difference. The rule is unenforceable. We are in favor of a self-regulating body within the securities industry. If SEC influence could be removed from NASD, there's no reason why the latter couldn't serve the purpose. We think the NASD is making progress; that they are doing a much better job. And, we wouldn't be surprised if your pounding away at the entire matter is bearing fruit, although we seriously doubt whether such an admission would be forthcoming. With regard to the 5% fiasco, while we find that we very seldom approach a 5% profit, we object to it as a matter of principle. We are inherently opposed to the now 15-year old trend toward totalitarian principles sired by FDR and his ilk.*

NEW YORK CITY

The Maloney Act should be repealed. I am not opposed to a voluntary organization of Security Dealers established for the purpose of creating uniform practices. I think such an organization is highly desirable. I want to compliment you for your aggressive and sound work in our behalf.

NEW YORK CITY

The NASD should have no government connections and solely represent the interests of its members. Rules should conform to sound business principles. The NASD should consider as its principal business the promotion and public understanding of the securities industry, listed and unlisted. P. S. — I compliment you on your excellent work.

NEW YORK CITY

We believe that the NASD should confine its activities to the business of acquainting the public with the merits of investing. It should not embark on boondoggling projects in order to dispose of the members dues and thus justify higher rates of assessment of its members.*

NEW YORK CITY

We have been members of the NASD since its inception and they never did us a bit of good. Dues are just money wasted.*

NEW YORK CITY

I specialize in not over one dozen situations where I carry substantial positions. These companies I am in constant touch with and I for one, cannot subscribe to the idea of having my competitors, who may sit on various committees of the NASD, dictate to me their ideas of fair practice about situations they know absolutely nothing about.

NEW YORK CITY

We feel that the "5% spread" yardstick is sometimes too little to permit merchandising of certain types of securities. We do, however, realize the difficulty of enforcing restrictions where abuse might be involved.

NEW YORK CITY

Some supervision of the over-the-counter industry is necessary, but we do not believe the NASD is the answer. Membership is practically compulsory, which is wrong. As a whole, the individual members receive little benefit out of the amount they pay NASD in dues and assessments every year.*

NEW YORK CITY

The NASD uses the "5% spread" yardstick as a fair margin **of** profit for dealers in securites but the same dealers when selling Investment Trust issues are **compelled** by the NASD to charge **not less** than the public offering price which is usually in the neighborhood of a 9% load. The 5% group are on a spot for exceeding the yardstick and the 9% group are on a spot if they take less than the 9% load. These are facts and not double talk.

NEW YORK CITY

Some protection must be given to issuers that their securities won't be kicked around.*

*Commented Anonymously.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Continued dullness seems order of the day. Participation under such conditions should be limited to minimum.

A market that lends itself so completely to academic discussions as this one, is an interesting market for people who like to argue the pros and cons of action and reaction. Such discussions may even make provocative reading, though to me they are fruitless because they don't point to anything that can be translated into a profit, at least not in the immediate future.

* * *

The major factor dominant today, or for that matter any other day, has to do with timing. If we can get that down then all the rest—trends, major, minor and secondary, become relatively unimportant. I'm not going to give you any hard and fast rule which will at once show you the way. First of all I don't know of any, and if I did I doubt if my passing it on wholesale would enhance its value. Timing, I have long ago discovered, considers many factors all of which are in evidence daily on the stock tape and translux. If conclusions differ it is because people who see the same things on the tape interpret them differently.

Sometimes some of these factors fall into slots with such ridiculous ease that timing becomes almost automatic. This is generally true of markets with large public followings. When this is absent the indicators frequently become confusing except for short periods. For example a market average will indicate resistance at a certain predetermined point. Stocks forming similar patterns to the averages will indicate the same thing. When, as and if, the market overcomes this resistance a general advance occurs. This is in turn reflected in certain stocks whose action conforms to that of the averages. There are still other stocks whose action often precedes that of the averages and can be counted on to give a better than average performance once the market itself passes its initial hurdle. It is this latter group that needs close watching. If it moves well the chances are the rest of the market will follow suit. If it slackens, backs and fills, the chances are nothing of importance will occur in the immediate future.

* * *

In present day and recent markets the indicators (strong stocks in dull markets) have in themselves often been confusing. Swings seldom attain a full point in either direction and participation in such markets becomes a debilitating and expensive process.

* * *

A few paragraphs back I commented that trends become relatively unimportant in the absence of timing. I want to correct that. Trends are always important though to be translated into profits must be accompanied by the application of the time factor. In an uptrend many stocks selling at 100 are relatively cheap. In a downtrend the same stocks even though selling at 50 may be relatively high. This is one of the answers to a recent magazine article which bemoaned the fact that stocks were on the bargain counter but nobody was buying them.

* * *

A more pertinent application of trend and timing can be seen in this column's recent recommendation to buy Cooper Bessemer at 28 and followed it with advice to sell between 36 and 38. Here was a stock that acted better than the market, though in itself was hardly important enough to move the market one way or another. Had there been enough stocks like it, however, the assumption could've been made that the entire market was headed up almost at once. Well, we know that wasn't so. Of course Cooper Bessemer subsequently had a piece of news, a stock dividend, which to me, incidentally, is seldom bullish, and I immediately lowered my sights. I suggested selling it at 36 or better and that was that.

* * *

On the other hand, Bristol Myers bought at 31 with a stop at 29, got under the 29 price by a fraction due to an ex-dividend date. In a good market this ex-dividend would be absorbed without a ripple. Inability to do it was in itself sufficient reason to get rid of the stock. As a matter of fact you might well apply a thought on any stock: Would you buy it back after you sold it? If the answer is "No" then you're better off without it.

* * *

You now have only one stock, Newport Industries at 10 with a stop at 8½. It still looks good, so hold on.

More next Thursday.

—Walter Whyte.

[The views expressed in this article do not necessarily at any time coincide with those of the Chronicle. They are presented as those of the author only.]

Southern Calif. Edison Common Marketed

800,000 Shares offered by First Boston Corp.-Harris, Hall Group.

A nationwide investment banking group, jointly headed by The First Boston Corp. and Harris, Hall & Co. (Inc.), offered publicly May 18 800,000 shares of common stock, $25 par value, of Southern California Edison Co. The group, composed of 56 underwriters in the East and 66 underwriters on the West Coast, offered the stock at a price of $32.25 per share.

Net proceeds of the stock sale will be used to finance, in part, the company's construction program which will cost approximately $254,800,000 during the period 1946-1951. Of this total the company estimates about $177,000,000 will be raised through the sale of securities of which approximately $129,000,000 will have been raised upon completion of this financing.

The principal generating plant now under construction is at Redondo Beach, in which two generating units of 67,000 kw. capacity each are scheduled for completion in late 1949 to supplement two similar units completed during March and April, 1948. The construction program also includes a new hydroelectric plant on the San Joaquin River with an ultimate capacity of about 84,000 kw. to cost around $19,000,000 and to be completed in 1951.

Giving effect to this financing, the company will have outstanding $203,000,000 of funded debt; 2,613,429 shares of senior preferred stock; 2,449,506 shares of convertible preference stock and 3,986,328 shares of common stock. Dividends on the common stock have been paid in each year since the incorporation of the company in 1909. Recently the board of directors declared a quarterly dividend of 50 cents per common share payable July 31, 1949. Prior to such declaration, the quarterly rate since 1942 has been 37½ cents per share.

The company supplies electricity to parts of central and southern California with an estimated population of 2,578,000. It operates 23 hydroelectric, four steam and one diesel electric generating plants with a total effective capacity of 1,117,855 kilowatts. In addition, the company has available 465,000 kilowatts from certain of the electric generating units of Hoover Dam on the Colorado River which it operates as agent of the United States.

For the 12 months ended March 31, 1949, the company reported operating revenues of $97,087,500 with net income of $14,600,765.

Edward E. Mathews Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Carl De Leuw is now connected with Edward E. Mathews Co., 53 State Street. Mr. DeLeuw was formerly Taunton manager for Trusteed Funds, Inc.

Joins Goodbody Staff

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C. — Ben C. Maffitt, Jr. is now with Goodbody & Co., 137 Brevard Court.

SEC and Equity Market Stagnation

(Continued from page 37)

negotiation rather than through competition.

Complaints about the operation of the competitive bidding rule have tended recently to center around the way it works in the issuance of utility preferred and common stocks — in other words, equities. The arguments take many forms but most of them boil down to the statement that competitive bidding tends to result in initial over-pricing of equity securities; that investors are therefore wary of going into new equity issues distributed after competitive bidding because they fear to suffer price declines when the securities go through market seasoning. A variety of suggestions has been made; the most radical has been that competitive bidding be flatly eliminated with respect to the issuance of utility common and preferred stocks.

Even if the factual premise of this argument were well-founded it does not follow that over-pricing is the result of the procedure established by the Commission. It is the parties to the deal who determine the price; we pass on it when it is arrived at. It seems to me that the pricing of securities in competitive bidding is in the main a problem of the bidders and not a problem of government regulation.

But what is "over-pricing"? There are as many views about this as there are segments of the financial community. To an underwriter whose mechanisms are geared to rapid distribution over-pricing is caused by any price increment that transforms an out-of-the-window distribution into a selling job. To the financial analyst over-pricing is the excess in cost above currently available yields of equal amount and quality. As far as issuers are concerned in general the higher the price the better the deal. Over-pricing becomes a problem for issuers when it reaches the point at which security holders' confidence in the company is impaired by unwarranted declines in the market price of securities during the seasoning process.

But as far as the Commission is concerned, no statistical analysis is sufficient as an answer to the particular problems in the particular cases that come before it. We cannot be swayed by the desire of underwriters for assurance of risk-free, rapid distributions; or the wish of a particular management to respect traditional relations with bankers; or its willingness to see an underpriced issue come out in order that it may enjoy the doubtful pride of seeing the market rise during the seasoning process. We must, as far as we can, balance all the equitable interests concerned after the price has been fixed.

I do not wish to leave the impression that the Commission would continue blind administration of any rule in the face of a demonstrable impairment in the ability of utility companies to raise necessary capital. Whatever problems underwriters face in scaling bids in order to avoid the dangers of over-pricing the arguments have not thus far demonstrated any need for change in the mechanics of competitive bidding.

It has been a pleasure to participate in this forum. It is my earnest wish that we can translate some of the good ideas that have been, and undoubtedly will be expressed, into effective action. That will never happen unless it is made to happen. We in government cannot do the whole job. It is up to the industrial, commercial and financial communities to provide the impetus and the skill.

Certain Aspects of the Bond Market

(Continued from page 6)

cline in 1949, compared with 1948, in new plant and equipment requirements on the part of 172 important companies. A more comprehensive survey made by McGraw Hill & Company indicates that manufacturing, mining, transportation and utility companies will spend 5% less this year than they did last and that construction programs are apt to be on a declining scale for several years to come. The Securities and Exchange Commission has also forecast a 5% reduction in 1949, as against 1948, in outlays for new plant and equipment, with the major part of the decline in the second half of the current year.

Prospective contraction in business investment will be offset in part by shrinkage in the amount of earnings available for reinvestment. Compilations of 1948 earnings reports set forth in the National City Bank of New York's letter for April demonstrate that a moderate decline in sales combined with relatively inflexible operating costs, produces a sharp runoff in net earnings. This problem would be further aggravated if increased government spending should be accompanied by higher tax rates on corporate earnings. So, if it is assumed that the postwar inflation has been broken and will not be resumed, then domestic requirements for an expanding economy imply lower annual totals for new capital issues than those witnessed during the past several years.

Institutional Buying

The central fact on the side of funds available for investment is that bond issues, whether sold publicly or privately, are being placed in the hands of institutions and accounts which are limited by indentures or by law to investment in only senior securities. The high proportion of new funds being raised through debt issues and the scarceness of funds available for common stock investment is a problem which I can not elaborate on now. However, it should be borne in mind that if equity markets should revive to the point where corporate managements believe they reflect more truly fair value in respect to current and prospective earnings and equity financing is undertaken on a substantial scale, then the flow of senior securities available for investment by institutions will be further curtailed.

In considering possible rates of savings accumulated in the future, the high totals and percentages of income saved during the war years must be forgotten. These reflect labor wage control policies pursued by the government during that period, more effective price control and curtailment of production for civilian consumption. In 1948, on the other hand, the point could be made that there was actually a shortage of new funds available for absorption of that year's new money issues. Computed as disposable income, not spent for consumers' goods and services, the United States Department of Commerce estimates personal savings at $14.9 billion for 1948. Liquid savings, however, increased only a net $4.9 billion. The difference of $10 billion is accounted for pri-

marily by purchases of housing. It appears that the marketing of $6 billion in new money issues during 1948 was made possible largely by the fact that insurance companies were able and willing to sell large amounts of United States Government securities.

Investment Trends

We know, of course, that the investment of savings does not hold to rigid channels. Real estate mortgages, government bonds, corporate, and municipal securities are alternate outlets for many institutions. The total amount saved will always be affected by employment and income levels. Contractual savings in the form of additions to life insurance company contracts are proceeding at the rate of about $3.5 billion per year. Moreover, in recent years personal contracts with insurance companies have been supplemented by rapidly expanding contributions on the part of corporations to pension and welfare funds for their employees. Some of these contributions are in the form of group life insurance policies but many more are independent trust funds set up in the large trust companies. Gross employer contributions for such purposes, it is estimated, are now approaching the rate of $1.5 billion annually. The current drafts on these funds is still small. Labor unions are exerting strong pressure for further expansion of these programs. Pension funds established by the clothing workers, musicians and coal miners unions are some of the better known examples of a growing movement. A number of voluntary savings channels, other than mutual savings banks, have been growing rapidly. The thrift department of commercial banks, savings and loan associations and postal savings are three growing competitors of the mutual savings bank system. Growth in mutual savings bank deposits is continuing at an annual rate of about $¾ billion a year. At the present time, it appears that the volume of funds going into housing has passed its peak.

It does appear reasonable that new money issues by corporations in 1949 and for some years to come will be smaller than the $6 billion marketed in 1948. This statement, of course, does not apply to the refunding of bank loans or other forms of debt; it applies only to new money issues. On the other hand, available savings, particularly those seeking conservative investments, should be greater than the estimate of $4.9 billion of liquid savings last year. There are two possible qualifications which must be applied to this statement. The first is that capital spending programs of states and other political subdivisions point to a large increase in the amount of new tax exempt issues. Yields even lower than those on governments reflect the attraction such issues have had for individual investors with high bracket incomes. Correspondingly, their lack of appeal to mutual savings institutions has been understandable. Proposals for veterans' bonuses, school, road and water supply building programs point to aggregate annual issues of new tax exempt securities approximating and even exceeding the $3 billion marketed in 1948. Bond proposals approvals to come before 1949 state legislatures approximate $3.3 billion. The average yield of such securities in 1948 was about 2.35%. It may well be that during the coming years, yields on this type of security will rise to the point where they are attractive to mutual savings banks. The rise in yields on this type of security has been very marked from 1945 to date and much sharper than the rise in yields on government and corporate bonds.

The other qualification involves what might be called compulsory savings. The whole problem of the Federal debt in relation to the securities market is beyond the scope of this discussion. It is pertinent to note, however, that proposals for the extension of present social security coverage and for other similar acts call for an increase in government trust funds receipts to about $8.8 billion for the fiscal year ending June 30, 1950 compared with about $6 billion for the current fiscal year. Scheduled expenditures to beneficiaries are getting larger but it should be borne in mind that employees can not save what has already been deducted from their wages and employers can not spend the money paid into the social security account.

Role of Mutual Savings Banks

With your permission, I will now address myself to the second topic which I would like to cover this morning, that is, the part that mutual savings banks play in our economy and what the outlook seems to be for mutual savings banks. The American people have traditionally been accumulators of savings funds in one form or another. As you know, deposits in mutual savings banks at the end of 1948 exceeded $18 billion, a very substantial figure even for these days. This showing is less comforting when viewed comparatively. I have prepared a table summarizing the long-term trends in some of the principal forms of savings which you can read at your leisure in the printed proceedings of this meeting. The six forms referred to are deposits in mutual savings banks, estimated accumulations in life insurance policies, estimated private savings in savings and loan associations, credits due depositors in the postal savings system, individual holdings of United States Savings bonds and totals for United States Government pension and trust funds. I have not included time deposits in commercial banks for the total figures available in this case combine personal and business funds. These figures are extremely interesting. During the decade ending with 1930, these six forms of savings increased more than $18 billion. Mutual savings banks accounted for approximately $4.5 billion or 25% of this increase. In the succeeding decade, that is, the period from 1930 to 1940, an aggregate for all six forms rose $21 billion more. The mutual savings banks accounted for only $1.2 billion of the increase or 6%. During the eight years ended 1948, there was a further enormous increase in the aggregate accumulation in these six funds amounting to $113 billion, of which mutual savings banks contributed about $7.8 billion or 6.9%.

GROWTH IN SELECTED SAVINGS FUNDS
(Millions of dollars)

As of Dec. 31	Mutual Savings Banks	Life Insurance	Savings & Loan Assns.	Postal Savings	U. S. Savings Bonds	U. S. Govt. Pension & Trust Funds	Total
1920	$4,806	$5,488	$1,741	$166	$761	$246	$13,208
1930	9,384	13,690	6,296	250	---	1,929	31,549
1940	10,618	24,663	4,272	1,342	2,700	8,669	52,264
1948	18,400	47,500	11,000	3,300	47,500	37,369	165,069

COMPARATIVE CHANGE

MUTUAL SAVINGS BANKS vs. AGGREGATE OF SIX FUNDS
(Millions of dollars)

	Total	Mutual Savings Banks	Savings Banks
1920-1930	$18,341	$4,578	25.0%
1930-1940	20,715	1,234	6.0
1940-1948	112,805	7,782	6.9

These figures are, of course, approximate figures and have been gathered from diverse sources. They may be slightly inaccurate in part but they are sufficiently accurate for the purpose of demonstrating a trend. This trend indicates quite clearly that in the period from 1920 through 1948, mutual savings banks fell way behind in getting their pro rata share of the new savings business available.

It is fair to say that not only have you met increased competition during this period from other kinds of savings programs, but from 1930 to date our Government's fiscal policies have basically changed the economy of our country. The introduction of compulsory procedures such as the various social security programs is certainly an important contributing factor to the decline in the rate of growth of mutual savings banks deposits. Ground has also been lost to other forms of private savings. In 1920, accumulations in life insurance policies of $5.5 billion were only 15% greater than the $4.8 billion of deposits at that time in mutual savings banks. The corresponding life insurance figure for 1948 of $47.5 billion was 250% of the total savings banks deposits of $18.4 billion. In 1940, as nearly as we can tell, approximately $2.7 billion was invested by individuals in United States Savings Bonds. At the end of 1948 this figure was $47.5 billion. The purchase of Series E Bonds, yielding 3%, has undoubtedly been the greatest competition mutual savings banks have had to meet in the history of the industry. To make matters worse, mutual savings banks throughout the country have, on behalf of the Government, marketed Series E Bonds to their own depositors directly on their own banking premises. This was a necessary and patriotic service rendered by you to our Government. It is clear, however, that this act of public service is having a permanent effect upon your business.

The mutual savings banks of the country constitute a time tested method for individuals to assure their own security. Correspondingly, their competitive position in the process of savings accumulations becomes a matter of general concern. In trying to appraise the future, it appears reasonable that if voluntary and individual efforts to make provision against the contingencies of life are not adequate, the proponents of more compulsory and centralized efforts will be quick to fill the gap.

We all know, of course, there are valid reasons beyond your control which has brought about this state of affairs in the mutual savings bank industry. The easy money conditions of the past ten or twelve years has brought the rate of return on high grade bonds down to the point where they are unattractive as investments for individuals. During the 1920s savings banks could pay an average rate of interest running from 4 to 4½%. Today the great bulk of savings banks deposits bear an interest rate of 2% or even less. It is interesting to note that at the end of 1931 United States Government securities accounted for only 6.4% of the total assets of mutual savings banks. At the end of 1946 they accounted for 63% of the total assets and at the end of 1948 approximately 56% of the total assets. During this period of decreased return on high grade investments the expense of doing business has increased substantially. It is evident that the depositor in savings banks has been caught between diminishing returns on his deposits and the banks' increased cost of doing business.

It is easy for an outside observer such as I to be critical of the rate of return received today in a savings bank. For what they are worth, I would like to make one or two constructive observations which may be impractical in part, but perhaps they will serve to stimulate your thinking about the problems in your own industry.

More Active Effort Needed

There are two ways in which the mutual savings banks of the country can be more active in attracting their fair share of new savings accumulations. First, a more aggressive effort to get new business; and the second is to try, within the limits allowed by law and prudent investment judgment, to increase the rate of return on your deposits. In recent years, it has occurred to me that mutual savings banks are notoriously shy in advertising the services they render. In the various cities of Connecticut, Massachusetts, and New York you are too apt to find a large poster outside a savings bank stating the fact that the bank pays ¾ of 1% semi-annually or, more recently, ½ of 1% quarterly on deposits. The life insurance boys, in their promotional literature and public advertisments, stress the picture of a jolly, middle-aged man fishing in Florida, acquiring a good suntan and smoking his pipe, all on an annuity of $200 a month. The rate of return on money paid in on your insurance premiums is never stressed. The simple arithmetical principle of interest compounded quarterly, even at these low rates of return, could be dressed up to be quite alluring to the average man. Such success as my own firm has had in its field of business has been due primarily to the appreciation of the fact that large fortunes are gradually being taxed out of existence in this country, that wealth has been and probably will continue to be redistributed for some time to come. Our policy has been deliberately planned to render the best and cheapest service to the man in the street who is the new capitalist. If we have a sufficient number of these people doing business with us every week, then we believe our firm will be competitive and will endure under these changing conditions.

Another point of interest to me, primarily in the State of New York, is the fact that savings banks along with commercial banks are closed on Saturday morning. One of my earliest recollections is that of being taken by the hand to a savings bank in the city in which I was born in Massachusetts, and having an account opened for me by my father. I was barely able to sign my own name. After this first introduction to the savings bank, whenever I had any spare cash I would bicycle down to the bank on Saturday morning to make an important deposit. I got to be quite grown up before I ever realized that there were other kinds of banks than savings banks. I happen to live on Manhattan Island and have three young sons. Each of these boys has an account in a neighborhood branch of one of the large savings institutions in New York City. These boys are rapidly losing interest in their savings accounts because they can never get into the bank to make a deposit. Their school keeps them until half past four each day at which time the bank is closed, and it is closed Saturday morning which is the normal time for them to conduct their important business affairs. It is true the bank is open one evening a week, but that is the time they are getting ready for bed. If it is impossible to change the Saturday morning closing law in the State of New York, perhaps the banks can open one or two mornings a week at 8 o'clock so that children can make a deposit on the way to school. If the commercial banks in the State of New York feel that it is not necessary for them to render a public service on Saturday morning, why don't you savings banks get together and have the law changed and stay open on Saturday morning.

It seems to me it is terribly important to conduct well thought out missionary campaigns among the children of the country to teach them thrift as exemplified by deposits in mutual savings banks. This even might entail setting up one receiving teller's window which is only three feet above the ground and not four and a half or five feet, so that even young children can make their own deposits.

Advertising more aggressively and appealing for business and even using promotional schemes does not cheapen the mutual savings bank or make you less able bankers or less conservative in the handling of the funds entrusted to your care.

A Broadened Field of Investment Needed

The other method of attracting business and becoming more competitive is in the investment of your deposits. I quite realize you are governed by regulations as to what you can invest in. There is increasing public interest in giving you the authority to broaden your field of investment. Recent evidence of this is the legislation passed in New York State permitting the placing of surplus funds in non-legal corporate securities. If I were an investment officer in a New York mutual savings bank, instead of buying Aa or Aaa public utility bonds yielding from 2.80% to 2.90% today, I would take a good look at the First Mortgage 3¾% Bonds of a company such as the Interstate Power Company which you can buy around par. With the new latitude afforded me by the recent legislation, I might well consider taking on a small block of this issue for yield purposes. My guess is that during the next 25 or 30 years, interest on these bonds will be paid as regularly as the interest will be paid on the First Mortgage Bonds of the Kansas City Power & Light Company. I am sure you are thinking of opportunities such as this. I would also pay particular attention to some of these industrial private placings with insurance companies. Generally speaking, the yield is much better than you can get in the open market. Almost without exception these issues have substantial sinking funds which makes the average life of the issue less than fifteen years, and the rate of return runs from 3 to 3½ or 3¾%, depending upon the type of credit involved. The rapid amortization features of these industrial issues return your money to you pretty promptly and, meanwhile, you have secured an above the average rate of return.

If we agree that the bond market levels will not change substantially in the foreseeable future, then the ingenuity of the managements of savings banks is going to be heavily taxed to keep this traditional source of savings competitive. I hope that you will not feel that my remarks this morning have been entirely critical because I don't intend them that way.

With Stifel, Nicolaus Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Edward J. Jilek, has become affiliated with Stifel, Nicolaus & Co., Inc., 314 North Broadway, members of the St. Louis Stock Exchange. Mr. Jilek was formerly with the Mississippi Valley Trust Co.

With Samuel & Engler Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, OHIO—Lloyd C. Anderson has become associated with the Samuel & Engler Co., 16 Broad Street. He was formerly an officer of Equity Investment Corporation.

Indications of Current Business Activity

The following statistical tabulations cover production and other figures for the latest week or month available (dates shown in first column are either for the week or month ended on that date, or, in cases of quotations, are as of that date):

		Latest Week	Previous Week	Month Ago	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:					
Indicated steel operations (percent of capacity)	May 22	95.6	96.2	98.4	95.0
Equivalent to—					
Steel ingots and castings (net tons)	May 22	1,762,400	1,773,500	1,814,000	1,719,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	May 7	4,896,750	4,922,050	4,916,050	5,412,750
Crude runs to stills—daily average (bbls.)	May 7	¶5,172,000	5,273,000	5,067,000	§5,602,000
Gasoline output (bbls.)	May 7	17,530,000	17,969,000	17,176,000	§16,963,000
Kerosene output (bbls.)	May 7	1,831,000	1,837,000	2,040,000	§2,144,000
Gas oil and distillate fuel oil output (bbls.	May 7	5,955,000	6,681,000	6,410,000	§7,126,000
Residual fuel oil output (bbls.)	May 7	7,895,000	8,185,000	7,954,000	§9,242,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines —					
Finished and unfinished gasoline (bbls.) at	May 7	123,400,000	124,787,000	127,522,000	§109,313,000
Kerosene (bbls.) at	May 7	19,173,000	†18,922,000	17,878,000	§13,572,000
Gas oil and distillate fuel oil (bbls.) at	May 7	51,373,000	49,959,000	48,920,000	§35,117,000
Residual fuel oil (bbls.) at	May 7	61,024,000	60,174,000	58,510,000	§51,868,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	May 7	768,337	785,444	757,784	880,287
Revenue freight received from connections (number of cars)	May 7	621,801	624,740	606,908	729,781
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS-RECORD:					
Total U. S. construction	May 12	$130,991,000	$129,266,000	$158,193,000	$149,236,000
Private construction	May 12	57,863,000	51,233,000	74,882,000	81,067,000
Public construction	May 12	73,128,000	78,033,000	83,311,000	68,169,000
State and municipal	May 12	63,148,000	56,865,000	71,436,000	56,640,000
Federal	May 12	9,980,000	21,168,000	11,875,000	11,529,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	May 7	11,200,000	*11,560,000	11,280,000	12,732,000
Pennsylvania anthracite (tons)	May 7	982,000	963,000	962,000	1,132,000
Beehive coke (tons)	May 7	Not Avail.	147,000	151,400	134,600
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	May 7	333	*286	320	330
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	May 14	5,256,976	5,283,592	5,342,731	5,108,673
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	May 12	171	193	184	100
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	May 10	‡3.705c	3.705c	3.708c	3.211c
Pig iron (per gross ton)	May 10	$45.91	$46.13	$46.66	$40.20
Scrap steel (per gross ton)	May 10	$22.75	$23.08	$23.58	$40.66
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	May 11	17.750c	18.200c	22.950c	21.200c
Export refinery at	May 11	17.925c	18.425c	23.175c	21.500c
Straits tin (New York) at	May 11	103.000c	103.000c	103.000c	94.000c
Lead (New York) at	May 11	14.000c	15.000c	15.000c	17.500c
Lead (St. Louis) at	May 11	13.850c	14.800c	14.800c	17.300c
Zinc (East St. Louis) at	May 11	12.000c	12.500c	15.000c	12.000c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Government Bonds	May 17	101.66	101.56	101.64	101.31
Average corporate	May 17	113.31	113.12	113.12	112.93
Aaa	May 17	118.80	119.00	119.00	117.80
Aa	May 17	117.40	117.40	117.00	116.02
A	May 17	112.56	112.19	112.19	112.19
Baa	May 17	105.00	105.00	105.00	106.39
Railroad Group	May 17	108.34	108.34	108.16	108.16
Public Utilities Group	May 17	113.89	114.08	113.89	114.08
Industrials Group	May 17	117.40	117.40	117.40	116.61
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Government Bonds	May 17	2.38	2.39	2.38	2.41
Average corporate	May 17	2.99	3.00	3.00	3.01
Aaa	May 17	2.71	2.70	2.70	2.76
Aa	May 17	2.78	2.78	2.80	2.85
A	May 17	3.03	3.05	3.05	3.05
Baa	May 17	3.45	3.45	3.45	3.37
Railroad Group	May 17	3.26	3.26	3.27	3.27
Public Utilities Group	May 17	2.96	2.95	2.96	2.95
Industrials Group	May 17	2.78	2.78	2.78	2.82
MOODY'S COMMODITY INDEX	May 17	343.4	343.6	353.2	420.5
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	May 14	214.3	213.7	218.8	238.2
Fats and oils	May 14	147.8	148.4	144.2	299.4
Farm products	May 14	229.7	228.5	234.2	258.5
Cotton	May 14	312.8	313.7	315.2	360.2
Grains	May 14	204.3	203.4	206.0	269.8
Livestock	May 14	224.0	221.8	230.4	242.7
Fuels	May 14	222.7	223.1	222.6	228.6
Miscellaneous commodities	May 14	163.9	164.2	166.9	176.6
Textiles	May 14	187.4	187.9	189.1	215.0
Metals	May 14	172.1	176.0	183.3	164.2
Building materials	May 14	212.8	213.0	213.6	232.2
Chemicals and drugs	May 14	139.2	137.6	139.5	155.6
Fertilizer materials	May 14	142.9	142.9	142.9	136.1
Fertilizers	May 14	150.5	150.5	150.5	143.8
Farm machinery	May 14	153.1	153.1	155.6	138.9
All groups combined	May 14	203.3	203.3	206.9	221.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	May 7	188,227	153,079	173,654	213,822
Production (tons)	May 7	160,923	161,559	159,449	191,787
Percentage of activity	May 7	78	80	77	101
Unfilled orders (tons) at	May 7	289,481	260,331	287,725	418,994
OIL, PAINT AND DRUG REPORTER PRICE INDEX — 1926-36 AVERAGE=100	May 13	131.1	132.6	133.3	146.5
WHOLESALE PRICES NEW SERIES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	May 10	155.9	155.2	157.6	163.7
Farm products	May 10	171.6	168.3	171.1	188.0
Foods	May 10	163.4	161.8	164.2	178.2
All commodities other than farm and foods	May 10	146.9	147.1	149.4	148.9
Textile products	May 10	138.9	139.1	140.2	150.1
Fuel and lighting materials	May 10	130.6	130.4	132.5	132.4
Metals and metal products	May 10	168.1	169.3	173.5	156.8
Building materials	May 10	195.3	195.4	196.5	195.9
All other	May 10	129.3	129.2	131.0	135.8
Special indexes—					
Grains	May 10	162.1	162.2	165.4	212.5
Livestock	May 10	199.6	198.9	206.1	229.2
Meats	May 10	220.4	222.3	227.3	263.4
Hides and skins	May 10	186.4	186.7	180.9	220.4

*Revised figure. ¶Includes 424,000 barrels of foreign crude runs. §Not comparable with other periods which are on new basis of reporting in California. Principal changes exclude cracking stock from distillate and residual fuel oils. ‡The weighted finished steel composite was revised for the years 1941 to date. The weights used are based on the average product shipments for the 7 years 1937 to 1940 inclusive and 1946 to 1948 inclusive. The composite under the old method this week would have been 3.74583¢ per pound. †Corrected figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES)—			
Production of primary aluminum in the U. S. (in short tons)—Month of February	49,749	53,356	45,699
Stocks of aluminum—short tons (end of Feb.)	15,101	17,310	9,354
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of March:			
Total shipments (thousands of pounds)	125,428	110,034	159,109
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of April	7,783,807	*8,387,927	6,224,487
Shipments of steel products, including alloy and stainless (net tons)—Month of March	6,305,681	5,519,938	5,978,551
AMERICAN TRUCKING ASSOCIATION— Month of March:			
Number of motor carriers reporting	317	*317	317
Volume of freight transported (tons)	3,312,515	*2,954,041	3,284,271
AMERICAN ZINC INSTITUTE, INC. — Month of April:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	75,941	78,121	71,500
Shipments (tons of 2,000 lbs.)	53,150	71,017	73,915
Stocks at end of period (tons)	50,995	28,204	43,216
Unfilled orders at end of period (tons)	65,713	79,722	71,691
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of April (in thousands)	$99,697,000	$109,735,000	$102,349,000
BUSINESS INVENTORIES, DEPT. OF COMMERCE—Month of March (millions of $):			
Manufacturing	$31,728	$32,065	$29,064
Wholesale	8,453	8,567	7,869
Retail	14,533	13,852	14,280
Total	$54,533	$54,484	$51,213
CARBON BLACK (BUREAU OF MINES)— Month of March:			
Production (lbs.)	110,996,000	99,502,000	109,691,000
Shipments (lbs.)	101,839,000	98,178,000	109,937,000
Producers' stocks (lbs.)	138,777,000	129,620,000	81,691,000
Exports (lbs.)	31,400,000	26,422,000	28,984,000
COAL OUTPUT (BUREAU OF MINES)—Month of April:			
Bituminous coal and lignite (net tons)	46,703,000	32,800,000	35,151,000
Pennsylvania anthracite (net tons)	3,722,000	2,373,000	4,438,000
Beehive coke (net tons)	612,200	*434,900	247,100
CONSUMER PRICE INDEX FOR MODERATE INCOME FAMILIES IN LARGE CITIES 1935-1939 = 100—As of March 15:			
All items	169.5	169.0	166.9
All foods	201.6	199.7	202.3
Cereals and bakery products	170.1	170.0	171.0
Meats	229.6	221.4	224.7
Dairy products	190.3	192.5	201.1
Eggs	180.1	179.6	186.3
Fruits and vegetables	214.5	*213.7	206.9
Beverages	208.5	209.0	204.4
Fats and oils	155.1	159.8	191.7
Sugar and sweets	175.5	174.3	174.4
Clothing	193.9	195.1	196.3
Rent	120.1	119.9	116.3
Fuel, electricity and refrigerators	138.9	138.8	130.3
Gas and electricity	96.1	96.1	93.8
Other fuels	192.5	192.6	175.5
Ice	140.4	140.0	132.2
Housefurnishings	193.8	195.6	194.9
Miscellaneous	154.4	154.1	146.2
CONSUMER PURCHASES OF COMMODITIES—DUN & BRADSTREET, INC. (1935-1939=100)—Month of March	287.1	286.1	300.1
INTERSTATE COMMERCE COMMISSION —			
Index of Railway Employment at middle of April (1935-39 average=100)	‡121.0	‡120.1	125.2
MANUFACTURERS INVENTORIES & SALES (DEPT. OF COMMERCE)—Month of Feb. (millions of dollars):			
Inventories:			
Durable	$15,257	$15,142	$13,525
Nondurable	16,779	16,939	15,243
Total	$32,036	$32,081	$28,768
Sales	16,303	16,687	16,225
MONEY IN CIRCULATION—TREASURY DEPT.			
As of March 31 (000's omitted)	$27,438,926	$27,557,141	$27,780,951
NEW CAPITAL ISSUES IN GREAT BRITAIN—			
Midland Bank, Ltd.—Month of April	£4,648,000	£22,088,000	£2,544,000
RR. EARNINGS — CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of March:			
Total operating revenues	$739,058,115	$675,749,306	$776,616,109
Total operating expenses	587,933,263	567,777,768	618,759,345
Operating ratio—per cent	79.55	84.02	79.67
Taxes	$72,339,986	$65,466,386	$82,163,688
Net railway operating income before charges	65,417,192	29,754,215	60,724,331
Net income after charges (est.)	41,900,000	5,000,000	36,600,000
U. S. GOVT. STATUTORY DEBT LIMITATION —As of April 30 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	251,530,468	251,641,514	252,239,912
Guaranteed obligations not owned by the Treasury	22,851	24,083	75,418
Total gross public debt and guaranteed obligations	$251,553,319	$251,665,598	$252,315,331
Deduct—Other outstanding public debt obligations not subject to debt limitation	776,684	782,441	832,390
Grand total outstanding	$250,776,635	$250,883,156	$251,482,940
Balance face amount of obligation issuable under above authority	24,223,364	24,116,843	23,517,059
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—(000's omitted):			
As of April 30	$251,553,319	$251,665,598	$252,315,331
General fund balance	3,995,156	5,766,580	4,612,423
Net debt	$247,558,163	$245,899,018	$247,702,908
Computed annual interest rate	2.235%	2.233%	2.174%
WINTER RYE PRODUCTION — CROP REPORTING BOARD U. S. DEPT. OF AGRICULTURE—As of May 1 (bushels)	21,552,000	------	26,388,000
WINTER WHEAT PRODUCTION — CROP REPORTING BOARD U. S. DEPT. OF AGRICULTURE—As of May 1 (bushels)	1,021,476,000	------	990,098,000

*Revised figure. ‡Preliminary figure.

Legislative Program of Securities And Exchange Commission

(Continued from page 12)

private ends. If you are the holder of a security which does not fall within any of these categories public and registered under the Securities Act since 1936, you are likely to have current information, but you do not have the but which has been offered to the benefit of the proxy and insider-trading provisions. On the other hand, if you hold a security in an industrial corporation which has not done any public financing since 1936, this whole series of statutes might just as well not exist so far as you are concerned except for a few fraud provisions —never mind how large the corporation or how actively its securities may be traded.

Dislocation of Relationship Between Listed and Over-Counter Market

One inevitable result of this illogical disparity has been a dislocation of the old relationship between the exchanges and the over-the-counter market. For, just as surely as water will flow down hill, trading will flow from a regulated into an unregulated market. Why should corporate managements list their securities on stock exchanges and thus voluntarily subject their companies and themselves to the registration and reporting requirements, as well as the proxy rules and the insider-trading provisions?

Prior to 1944 there were actually a number of delistings of securities which were admittedly motivated, at least in part, by a desire to avoid these provisions. In that year the Commission for the first time required a vote of shareholders as a condition of delisting, and no company has yet seen fit to go to its shareholders with a delisting proposal on the basis of complete disclosure concerning the rights which they would lose if the proposal were to carry. There is still the problem, however, of the deterrent effect of the present statutory scheme upon new listings. Although the effects of the statute may not be as important a factor as the desires or recommendations of the corporation's investment bankers on the question of listing versus over-the-counter trading, the statutory scheme undoubtedly is an important consideration in the minds of corporate managements.

There are, of course, two ways to equalize the situation—either up or down—and I am sure you will not be surprised when I say that our studies have persuaded us toward the former direction. Let me tell you briefly what the Commission learned in the studies which formed the basis of its 1946 report to Congress. I shall refer, first, to the lack of available information about unregistered companies; secondly, to the habits of such companies in soliciting proxies; and, thirdly, to the need for applying the insider-trading provisions. It should go without saying that we do not mean to throw all unregistered companies into the same heap. Some follow better practices than others. But we naturally must emphasize the case of abuse if they occur in substantial number. For it is part of the price of living in a civilized society that all of us must conform to the laws which result from the actions of some, more often than not a minority.

The Commission studied the annual reports of 119 companies with assets of at least $3,000,000 and 300 or more security-holders. Not a single company mentioned whether it had had any material transactions with insiders, or whether insiders had traded in the company's stock. Frequently there was no adequate disclosure of important changes resulting from the transition from a war economy to peacetime operations. Information with respect to bonuses or profit-sharing arrangements and the remuneration of top executives was usually absent. The financial statements were in many cases woefully inadequate. About 13% of the companies furnished no income statement at all, and the income statements of many more were so highly condensed as to be of limited value; in some cases they did not even report whether there had been any earnings during the year. Some 20% of the companies furnished no analysis of surplus. Over half of the balance sheets examined were materially deficient when judged by the accounting standards enforced under the Securities Exchange Act. One company listed 95% of its assets under the single caption, "Property, plant and equipment, including intangibles." In another case a "good will" item amounted to 60% of total stated assets although the company had a substantial accumulated deficit. In still another case dividends on treasury shares were boldly reported as income.

It is apparent that certification by an independent accounting firm does not of itself assure adequate information to the investing public, because 85% of the statements examined had been so certified. This is not intended as a criticism of the accounting profession. It is unfair to the profession itself not to buttress the accountants' standards by making the Commission's accounting regulations uniformly applicable to all companies of certain size and degree of public ownership. The Commission's experience has been that, unless accountants can point to legal requirements of good accounting standards, they are often unwilling or unable to pit their own opinions against the insistence of management as to the degree of disclosure—and a committee of the British Board of Trade made a similar finding a few years ago in the course of its study leading to the amended Companies Act of 1947.

Proxy Abuses

In the proxy field the possibility of abuse is self-evident. The proxy instrument is an essential device in the modern corporation with its thousands and sometimes hundreds of thousands of scattered stockholders. It is a device which can be used for good or ill. If stockholders are informed of the affairs of their corporations and given an opportunity to cast their proxy votes intelligently, the proxy device may well turn out to have been the salvation of our present-day corporate system. On the other hand, if the proxy instrument is no more than a blank check, the whole device simply makes for self-perpetuation of management and leaves the door open, as the Commission said in its 1946 report, "for executive irresponsibility and outright fraud." A writer in the London "Economist" put it well when he said on Christmas Day in 1937:

"Company meeting procedure is a fitting topic for the festival of Christmas. Outwardly, it is a conglomeration of paradoxes whose superb unreason best suits the moment when paper hats are put on and logic leaves by the chimney. . . . No hall in England could possibly contain the 150,000 ordinary shareholders of Imperial Chemical Industries. But no secretary ever lost sleep on that account; for shareholders simply do not come trooping by battalions. Contrary to all theatrical canons, the best shows draw the thinnest houses. Only a passed dividend, a heavy loss or a reconstruction scheme can really pack the hall; a crowded meeting is usually an angry meeting. Shareholders who cannot attend, however, are given special facilities for voting in favor of the chairman's policy before they have heard his speech."

To the extent that the Commission's proxy rules apply, that can no longer be said in this country. We are particularly proud of our proxy rules. We think they are probably the single most effective disclosure device in our whole statutory arsenal. Under the proxy rules holders of listed securities or securities subject to the Holding Company or Investment Company Act are no longer faced with the alternative of giving a blank check or disfranchising themselves altogether. They must be given prescribed information necessary to an intelligent exercise of their voting rights; they must be given an opportunity to indicate their wishes separately with respect to all matters which will arise at the meeting; and, so that corporate meetings will not resemble political elections in the one-party countries, they must be given a reasonable opportunity to present their own proposals and views to their fellow security-holders.

Contrast this with the proxy soliciting practices of the companies which would be affected by the Commission's proposal. We examined the proxy materials relating to 152 meetings of 76 companies, comprising all the domestic companies with assets of $3,000,000 or more whose voting securities have unlisted trading privileges on the New York Curb Exchange and were traded during 1944 in a volume exceeding 5,000 shares. The materials sent out in connection with 89% of the annual meetings did not even name the persons whom it was proposed to elect as directors. In connection with 42% of the annual meetings one of the items was stated to be the approval and ratification of all the acts of the management since the last meeting, with no specification of the nature of those acts. About 95% of the companies did not afford their stockholders an opportunity for a "yes" or "no" vote on specific items through a convenient ballot-type of proxy. One case has quite recently come to our attention in which a form of proxy appeared on the back of the company's dividend check, so that the stockholder who endorsed the check automatically executed a proxy unless he indicated to the contrary by marking an "X" in a particular space! Here is free enterprise unbridled. The lawyer who thought that one up—and I assume only a lawyer would have that vivid an imagination—well earned his fee.

Insider Trading

Let us turn now to the insider-trading problem in connection with unregistered companies. As the Commission said a few years ago in its Tenth Annual Report to Congress: "Prior to the enactment of the Securities Exchange Act, profits from 'sure thing' speculation in the stocks of their corporation were more or less generally accepted by the financial community as part of the emolument for serving as a corporate officer or director notwithstanding the flagrantly inequitable character of such trading." The Senate report on the bill which became the Securities Exchange Act referred to a case—which it said was one of the many instances of misuse of inside information—where the President of a corporation and his brother, who controlled the company with a little over 10% of the shares, disposed of their holdings for upward of $16,000,000 before the company passed a dividend and later repurchased them for about $7,000,000. Apparently Judge Gary of United States Steel knew what he was doing in making it a practice, whenever his board declared a dividend, of insisting that notice of the dividend should be sent out over the stock ticker before adjournment of the directors' meeting.

Except to the extent that the present statutes have forced a change in the traditional laxity with respect to insider trading, we think it safe to assume that the problem still exists. We do know that most of the cases of market abuses by insiders which have come to the Commission's attention in its fraud work have involved unregistered securities.

These are the considerations, in highly condensed form, which have prompted our proposal that the various protective features I have been talking about be uniformly applied to all companies of certain size and public interest regardless of listing on an exchange or any other fortuity. Surely this is true: that the last persons in the world who should have the determination whether the public interest requires the application of these provisions in a particular case are the managements on whom the burden of compliance would fall.

It is fair to ask what the impact of the Commission's proposal would be quantitatively on the nation's corporate economy. Naturally we can only estimate, but we believe there are some 3,100 companies with assets of $3,000,000 as well as 300 security-holders; this figure excludes banks which would be exempted. Of these 3,100 some 1,600 are already registered with the Commission under one act or another and most of them are subject to the proxy and insider-trading provisions. Of the remaining 1,500 about 500 are already filing with other government agencies public reports which are basically comparable to those required by the Commission. That leaves roughly a thousand companies which do not now file public reports, and a somewhat larger number which are not subject to the proxy and insider-trading provisions. Of course, while corporations may be able to avoid death, they cannot avoid taxes, and probably 85% of those thousand companies already have certified financial statements, so that it would be no great burden on them to register with the Commission.

Some of these companies play prominent parts in the American scene: Aluminum Company of America; American Potash & Chemical Corp.; The Great Atlantic & Pacific Tea Co.; Pittsburgh & Lake Erie Railroad Co.; Technicolor, Inc.; American Optical Co.; Ideal Cement Co.; The Crowell-Collier Publishing Co.; Time, Inc.; Remington Arms Co.; and others I could mention. Some of these have securities traded on an exchange on a so-called unlisted basis, but without any of the statutory safeguards I have been talking about, and the securities of other companies in the list are traded solely over the counter. I have yet to hear a single logical argument for continuing to exempt companies of this stature from the several statutory safeguards which Congress has successively found to be essential in the case of the various categories of corporations now covered by the statutes. One may criticize certain aspects of the present provisions; we do not say they are perfect. Our position is merely this: that whatever provisions do appear on the statute books should apply to all companies of certain size and with a certain number of security-holders regardless of the happenstance of past registration under one of the statutes.

One Result of Program

One result of this program if it is enacted will be to put the question of exchange listing back on the plane on which it belongs. Today, as I have indicated, that question is complicated by considerations of the restrictions upon management which are attendant upon exchange listing. Our proposal would put the exchanges and over-the-counter market on a truly competitive basis and each of the markets would be allowed to develop "in accordance with its natural genius and consistently with the public interest," as one of the Congressional committees put it in 1936. Adoption of this proposal may also remove one of the incentives toward private placements and, as a result, toward excessive debt financing with its rigidifying effects on our economy. Although it is problematical to what extent the registration and reporting requirements now applicable to public offerings are responsible for the private placement trend, it cannot be demonstrated that the premium of non-disclosure which the law now places on avoidance of the securities statutes has not been one factor in the situation.

Most important of all, this proposal is an essential capstone in the statutory structure whose foundation was laid 16 years ago in an effort to make corporate democracy an integral part of our national life. Political democracy has long been taken for granted in this country, and social and labor democracy is rapidly achieving almost the same universal recognition in principle. Corporate democracy is no less important an aspect of our national life. And, just as political democracy is imperfect to the extent that any segment of the population is disfranchised, it seems to me to be equally axiomatic that our free enterprise system is vulnerable to the extent that there are important gaps in our corporate democracy.

Bond Club of Buffalo To Hold Annual Picnic

BUFFALO, N. Y.—The Bond Club of Buffalo will hold its annual picnic at the Wanakah Country Club on June 10.

Two with Gross, Rogers

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Tony Garat and James R. D. Bray have become associated with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Garat was previously with Edgerton, Wykoff & Co.

Hulburd, Warren Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Earl M. Engwis has been added to the staff of Hulburd, Warren & Chandler, 208 South La Salle Street, members of the New York and Chicago Stock Exchange. Mr. Engwis was previously with Shillinglaw, Bolger & Co.

Cruttenden & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Anton M. Miller is now with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Miller was formerly with Herrick, Waddell & Reed, Inc.

French & Crawford Adds

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—Lawrence C. Parker has become associated with French & Crawford, 22 Marietta Street Building.

Boosting Federal Expenditures Now And Later: Byrd

(Continued from page 13)

your support in a campaign to require that every bill reaching the calendar of either house of Congress be accompanied by a competent estimate of its annual and ultimate cost to the Federal Government. I know . . . we are all familiar with the recent contentions that some programs, projects and policies either cannot or should not be considered in terms of cost. In a relatively few cases I may agree, but only with the reservation that frank rejection of the proposals would be far better than the deceit of a promise which cannot be fulfilled. And how do we know whether we can meet our financial requirements until we know what the requirements are?

Expenditures in Foreseeable Future

My fourth reason for inviting your attention to these long-term commitments is to show you their effect on the current and coming Federal budgets in the foreseeable future. As these extended programs get under way they gather terrific momentum which forces expenditure budgets up and up. They are responsible in a large measure for the serious fiscal prospects which confront us now. And every day we are trying to assume the obligations of more. These prospects for fiscal years 1949, 1950 and 1951 may be summarized and projected as follows:

Fiscal 1949 (ending July 1, 1949)	
Income	$39.5 billion
Expenditures	40.3 billion
Deficit	815 million
Fiscal 1950 (ending July 1, 1950)	
Income	$40.9 billion
Expenditures	44.2 billion
Deficit	3.2 billion
Fiscal 1951 (ending July 1, 1951)	
Income	$40.9 billion
Expenditures	48.4 billion
Deficit	7 billion

These are projections of the regular budget. They do not take into account the Social Security programs, the proposed socialized medicine plan, or any other operations which are handled through trust funds outside the budget.

The figures on the spending side of these projections are not appropriation estimates. They are expenditure estimates. There is a vast difference. Appropriations are not necessarily expended in the year in which they are approved. Appropriations enacted in a high revenue year may actually be spent in a low-revenue year. Deficits or surpluses are determined by expenditures—not appropriations—against revenue.

You probably will regard these expenditure estimates as ultra conservative when you realize that—

> They include no more than a moderate increase for agricultural subsidies under the present formula; they do not contemplate the Brannan plan. They do not contemplate a 70-group air force. They do not project any general fund expenditures for socialized medicine. If vast projects like new valley authorities are undertaken, they would be in addition.

The Revenue Side

On the revenue side my estimates will decrease with any substantial decline from the high level of prosperity which prevailed at the time the President's January Budget Message was submitted.

You are better judges than I am as to whether we shall maintain prosperity at the high average of the 1948 calendar year. If we do not maintain that level, experts of the Joint Committee on Inter-

(Continued on page 43)

Mandate To Congress

(Continued from first page)

tionnaire, which is reproduced below, also included space for the recipient to spell out in detail the reasons why he either favored or disapproved of the NASD and its policies. In accordance with the usual procedure, the recipient firm was afforded the option of either signing or not signing its return. With the foregoing as a preliminary, we now proceed with an analysis of the replies to the poll.

The first question on the ballot dealt with the "5% mark-up yardstick." The CHRONICLE has consistently opposed this attempt at price fixing by the National Association of Securities Dealers. We maintained that the 5% philosophy was in fact a rule which should first have been submitted to a vote of the members of the NASD.

We also held that the securities industry was opposed to this rule and the correctness of our position is reflected in the official results of the poll which is presented in the accompanying tabulation. The replies to this question indicated that more than 75% of the returned ballots were opposed to the 5% yardstick.

Among men of reason and common sense, there can no longer be any doubt that the vast majority of the securities industry is opposed to the NASD price fixing.

Our next poll question dealt with NASD questionnaires seeking reports on spreads. This method of inquisition was opposed by over 74% of the NASD members who voted and by over 81% of the nonmembers answering the ballot.

Here again the CHRONICLE was steadfast in its editorial stand against these prying questionnaires which we said constituted an invasion of privacy. It was our attitude that the American tradition of doing business by leaving industry unfettered should be preserved. Overregulation by administrative bodies has hogtied the securities markets. These questionnaires constituted a part of such overregulation and were a costly burden upon securities dealers. **On the one hand, the costs of business were being increased by compelling the preparation of unnecessary paper work while at the same time the very organization responsible for such increase was controlling prices by narrowing the margin on spreads.**

On the third question, "Do you approve of examination by NASD of the books and records of its members against whom there are neither charges nor complaints pending?" more than 76% of the returns by members and more than 88% of the returns from nonmembers voted "No."

Our opposition to NASD examination of the books and records of its members, so-called field examinations, is too well known to need any elaboration or further comment. We have inveighed against this practice. The claims that no widespread opposition to this practice exists, that only a very limited few "on the fringe" of the securities field were the objectors, have been irrevocably shown to be untrue.

In the light of the revelation by this poll, the truth that there is widespread opposition to field examinations when no complaints exist is now firmly established.

The trial system in which the NASD acts in the capacities of investigator, prosecutor, judge and jury also came in for quite a flaying. The member returns showed more than 85% opposed and the returns of nonmembers showed more than 91% opposed to this trial system.

Of the many mistakes evidencing NASD decadence, its system and method of trial by the local Business District Conduct Committee is perhaps the worst.

In the NASD proper there has been talk of revising this trial system. Those in charge of this organization's affairs know that dissatisfaction with the system is quite general and yet up to now nothing has been done about it.

The insolence with which these multiform powers can be pursued and get out of hand is best illustrated by a recent case wherein it took our Federal Courts to stop the onslaught of the NASD bent on a punitive expedition in a matter wherein honest contractual differences had arisen between private parties.

The rule which forbids an NASD member giving a discount to a nonmember of the association was opposed by 69% of the member returns and by over 92% of the nonmember returns.

This indefensible rule, monopolistic in its nature, should never have been authorized by the Maloney Act nor should it have been adopted by the NASD. The schism it has created in the securities field is pathetic and unwarranted. This rule and "the 5% spread philosophy" have caused incalculable harm to small business by interfering with the liquidity of markets, causing the relaxing of interest in secondary markets and often the complete failure of markets in such issues because of inadequate returns to the dealer and because the spreads permitted in primary issues and certain other forms of investment were financially more attractive.

On our questionnaire we had a place for comments. One of the questions asked was, "What effect, if any, do you think the NASD's '5% mark-up' rule has on the market for securities of the smaller corporations of the country?" The answers were both illuminating and disturbing. The general trend, with few exceptions, indicated a widespread opinion that the "5% mark-up philosophy" had a distinctly adverse effect on the market for the securities of smaller corporations of the country. For the past several weeks, we have been carrying verbatim in the CHRONICLE the answers that we have received to this last question. These should be a clear guide to our legislators.

Our poll also asked this sweeping question: "Do you believe that the Maloney Act which made possible the creation of NASD should be abolished?" Abolition was favored by over 64% of NASD member returns and by over 79% of nonmember returns.

With these results, can it ever again be convincingly claimed that membership in the NASD is voluntary, when it is clear that a majority of the securities industry, both in and out of the NASD—a very convincing majority—are:

1. Opposed to its price control policies.
2. Opposed to its system of circulating questionnaires calling for reports on spreads.
3. Opposed to its system of field examinations where there are neither charges nor complaints pending.
4. Opposed to its trial system.
5. Opposed to its system of prohibiting discounts to nonmembers of the association.
6. In favor of repealing the Maloney Act; that is, of wiping out the NASD.

Can it be said that members who feel that way about the NASD joined up of their own volition?

The results of this poll constitute a mandate, a direction to the Congress, to abolish price control by the NASD, to wipe out its prying policies and invasions of privacy through questionnaires and field examinations, to erase that trial system which places in one entity the possibility of acting in the multiform capacities of investigator, prosecutor, judge and jury, to expunge monopolistic discount practices—to do all of these by repealing the Maloney Act which gave birth to the National Association of Securities Dealers.

Such repealer will serve the public interest by restoring the market for the securities of the smaller corporations of the country. It will create faith in the securities field and enable those in it to operate freely, to express their opinions honestly without fear of reprisal.

WE CAN ONLY POINT OUT THE DUTY AND THE MANDATE. THE JOB RESTS WITH CONGRESS, WHICH CAN EARN THE GRATITUDE OF ALL THE PEOPLE BY BRINGING US QUICK RELIEF.

Final Poll Results and Text of Ballot

For the record, we present now the final results of the poll and then reproduce the text of the ballot.

FINAL RESULTS OF NASD POLL

(RETURNS FROM NASD MEMBERS)

Total ballots returned			1001
(1) 5% "Yardstick":			
Favoring	216	or	21.6%
Opposed	**755**	**or**	**75.4%**
No opinion	30	or	3.0%
(2) Questionnaire for Reports on Spreads:			
Favoring	231	or	23.1%
Opposed	**742**	**or**	**74.1%**
No opinion	28	or	2.8%
(3) Examination of Books and Records Where Neither Complaints nor Charges Are Pending:			
Favoring	207	or	20.7%
Opposed	**765**	**or**	**76.4%**
No opinion	29	or	2.9%
(4) NASD Trial System:			
Favoring	116	or	11.6%
Opposed	**855**	**or**	**85.4%**
No opinion	30	or	3.0%
(5) Rule Forbidding Discount to Non-Members:			
Favoring	274	or	27.4%
Opposed	**691**	**or**	**69.0%**
No opinion	36	or	3.6%

(6) Should Maloney Act Be Repealed?			
Favoring	**643**	**or**	**64.2%**
Opposed	274	or	27.4%
No opinion	84	or	8.4%

(RETURNS FROM NON-MEMBERS OF NASD)

Total ballots returned			196
(1) 5% "Yardstick":			
Favoring	23	or	11.7%
Opposed	**152**	**or**	**77.6%**
No opinion	21	or	10.7%
(2) Questionnaire for Reports on Spreads:			
Favoring	20	or	10.2%
Opposed	**160**	**or**	**81.6%**
No opinion	16	or	8.2%
(3) Examination of Books and Records Where Neither Complaints nor Charges Are Pending:			
Favoring	10	or	5.1%
Opposed	**173**	**or**	**88.3%**
No opinion	13	or	6.6%
(4) NASD Trial System:			
Favoring	7	or	3.6%
Opposed	**180**	**or**	**91.8%**
No opinion	9	or	4.6%
(5) Rule Forbidding Discount to Non-Members:			
Favoring	6	or	3.1%
Opposed	**182**	**or**	**92.8%**
No opinion	8	or	4.1%
(6) Should Maloney Act Be Repealed?			
Favoring	**156**	**or**	**79.6%**
Opposed	22	or	11.2%
No opinion	18	or	9.2%

COPY OF BALLOT

A PERSONAL MESSAGE TO THE SECURITIES INDUSTRY PERTAINING TO THE NATIONAL ASSOCIATION OF SECURITIES DEALERS, INC.

We are anxious to learn the facts regarding the attitude of the Securities industry toward the activities of the National Association of Securities Dealers, Inc., embraced in this poll and are therefore mailing this questionnaire to all dealers and brokers in the United States.

Please answer the queries where indicated either "Yes" or "No."

A business reply envelope is enclosed for your convenience.

HERBERT D. SEIBERT,
Editor and Publisher

1. Do you approve of the NASD's "5% spread" yardstick ☐ Yes ☐ No

2. Do you approve of the use by the NASD of questionnaires calling on its members for reports on spreads on transactions? ☐ Yes ☐ No

3. Do you approve of examination by NASD of the books and records of its members against whom there are neither charges nor complaints pending? ☐ Yes ☐ No

4. Do you approve of the trial system wherein the NASD acts in all of the following capacities: Investigator, prosecutor, judge and jury? ☐ Yes ☐ No

5. Do you approve of the NASD rule which forbids a member giving a discount to a non-member of the Association? ☐ Yes ☐ No

6 Do you believe that the Maloney Act which made possible the creation of the NASD should be abolished? ☐ Yes ☐ No

7. Is your firm a member of the NASD? ☐ Yes ☐ No

NAME and ADDRESS OPTIONAL

____

____

P.S.—Please excuse the printed presentation of this matter. If time had permitted, I would have written you a personal letter.

1. Do you do a retail business? ☐ Yes ☐ No

Do you employ salesmen? ☐ Yes ☐ No

2. Are you primarily dealers in U. S. Govt. or Municipal Bonds? ☐ Yes ☐ No

3. Do you handle principally listed or unlisted securities?________

4. What effect, if any, do you think the NASD's "5% Mark-Up" Rule has on the market for securities of the smaller corporations of the country?

COMMENTS

Boosting Federal Expenditures Now and Later

(Continued from page 42)

nal Revenue Taxation calculate that a 10% drop in the aggregate of personal incomes would mean a loss of $5 billion in Federal revenue under the existing tax system and rates. (They use personal income as a gauge in the measurement of other principal factors.) If we returned to a level of prosperity which prevailed at the end of the war—and we did not regard ourselves in a depression then—the reduction in personal incomes would be 20%. In that event, by the experts' formula, Federal revenue would be $10 billion less than my projected figures.

If there is a decline in business this year, and if we do not retrench substantially in Federal spending, the first full impact of a recession from the peak of inflated prosperity will strike Federal finances in fiscal year 1951 which begins a year from this July. And in the same fiscal year we shall reach the C.O.D. delivery dates on the huge military production contracts which we have authorized, and it is then that we shall begin paying off heavily on the new long-term civilian commitments such as housing, education, and heavy construction projects.

As I see it fiscal year 1951, beginning July 1, 1950, will be critical in Federal fiscal affairs; and the prospects are bleak and fraught with grave public consequences. With this crisis virtually upon us there are three courses open. The first is drastic reduction in public spending. The second is a substantial increase in taxes. The third is large scale deficit financing.

I shrink from the thought of the third course. Under current circumstances another peacetime sortie into deficit financing would shatter public confidence in Federal securities at a time when the debt stands at more than a quarter of a trillion dollars.

If we can't or won't run this government on a balanced budget now, I doubt that we shall ever return to sound financing. To you and me that means our credit would be destroyed and our system of government doomed.

What New Taxes Might Do

I ask you whether new taxes are the answer. What would be the result of a substantial tax increase on a business economy when it is already receding? By all the rules I know, new taxes at such a time may easily accelerate a minor business decline into a major recession. Business is never more sensitive to new costs and taxes than it is on a declining market. Where could we raise an additional $8 billion or even $5 billion in new taxes without dealing a shocking blow to our economic system? The President says to put it on incomes above $6,000 yearly, but to do so would be virtual confiscation of a class of taxpayers who are doing more to add to our business progress than any other. Confiscate every dollar of every income above $50,000 and the Treasury will receive only $1.7 billion.

Reduction in Federal expenditures can be accomplished—but only if there is a public demand for it which cannot be denied by a bureaucracy which has been raised on 16 years of excessive spending—a bureaucracy which knows and practices the tricks of buying off such a demand with more spending.

Under existing legislative facilities and procedures any worthwhile reduction in expenditures on existing Federal programs, projects and policies must originate with the Administration in the Executive Branch. In the archaic procedures and confusing language which characterize the action by Congress on fiscal legislation, intelligent curtailment to the degree necessary is virtually impossible. Actually after the President submits his recommendations, Congress never sees the budget again as a whole until after it is enacted. And as we pass on it in relatively small unrelated pieces over a period of six months, our action is on appropriations—not expenditures.

Budget Reform

For several years now I have been trying to correct this situation by advocating the use of a single appropriation bill which would be capable of translation into terms of annual expenditures. I am encouraged this year by increasing support for this simple change in the rules. But we haven't got it adopted yet. With such a single appropriation bill we could consider the budget as a whole and by knowing what it means in annual expenditures we could act in the light of revenue estimates. As long as this legislative handicap exists intelligent reduction in expenditures in any substantial degree—on programs, projects and policies already authorized—must originate in the Executive Branch.

But there is every reason why Congress should make a major contribution to the requirement for retrenchment by rejecting new legislation which would authorize more and more programs, projects and policies requiring additional expenditures.

It is with this situation in mind that I have taken your time to discuss the trend toward long-term government commitments and their effect on the Federal Budget; to suggest that no new program should be entitled to consideration by Congress until it is accompanied by a competent estimate of annual and ultimate cost; and explain why sympathetic cooperation by the Executive Branch is necessary if we are to reduce expenditures on programs, projects and policies already authorized.

We know that costs on existing programs can be cut substantially and we know that the Federal Government is permeated with waste and inefficiency. The fact that Federal employment has been increasing at a daily average rate of nearly 300 a day is evidence enough. When State and local government employees are added to the more than 2 million on the Federal payroll we find that one out of every nine persons in the entire American labor force is on a government payroll. We know that if the Executive Branch chose to take the initiative the administrative costs of programs, projects, and policies already authorized could be reduced a full 10% without impairment of a single essential function. We know that the prevailing inclination in the Legislative Branch is to enact more and more programs, projects and policies involving long-term commitments. We know that almost invariably these commitments are characterized by increased regimentation and expenditures. We know that private enterprise is the foundation stone upon which this nation has built its freedoms and its progress. It is a good system, and in most respects it is tough and durable. But, we know that it cannot survive excessive regimentation; it cannot survive excessive taxation; and it cannot survive excessive government competition.

To analyze the Federal budget is a terrific job. I wish it were simpler. For, it is of absorbing interest to those who have been conscious of the trend which, for some time, has been developing in this country toward greater and more powerful central government; toward more all-inclusive control over the daily lives of our people, and the activities of our business. It is still going forward at a rapid pace.

Unless this trend is halted, we are headed for regimentation equal to that which the British are suffering, if not worse. Our strength is the strength of the private enterprise system. Strike it down and you will shear Samson's locks. Foster it and we shall continue to be the greatest nation on earth—a free nation with capicity and incentive. A nation in which 6% of the world's population can out-produce the rest of the world combined. Those who, wilfully or otherwise, would destroy the American enterprise system, would destroy the freedom of people everywhere. We, alone, are bearing the standard of freedom today. Without the light of our torch, freedom and progress will perish in the world.

Frankly, the situation we face is exceedingly critical and will come to a crisis about a year from now. I propose to analyze our pending fiscal situation in detail on the floor of the Senate later this week. If you would be generous enough to read what I have to say, I should be pleased to mail a copy of the remarks to you at home. And, I would be grateful for your comment and advice.

With W. E. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE — Laurence H. Staples has become associated with W. E. Hutton & Co., Bank of Commerce Building. Mr. Staples was previously with Sides, Morse & Co., Inc.

With Chas. A. Day & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Harold W. Stoddart has been added to the staff of Chas. A. Day & Co., Inc., Washington at Court Street, members of the Boston Stock Exchange.

With Florida Securities

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.— Russell W. Danzer has become affiliated with Florida Securities Co., Florida National Bank Building.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• American Fork Consolidated Mines, Salt Lake City, Utah
May 9 (letter of notification) 400,000 shares of capital stock. Price 25 cents per share. **Underwriter**—Cromer Brokerage Co., Salt Lake City. For mining development.

• American Light & Traction Co.
May 13 filed 634,667 shares of common stock (par $25). **Offering**—United Light & Railways Co., (parent) plans the sale to its stockholders of the 634,667 shares of American at $12 per share. **Underwriter**—None. The proposed sale is to conform with SEC order under the Holding Company Act which calls for United's sale of American Light stock holdings.

American Telephone & Telegraph Co.
April 21 filed between $393,000,000 to $400,000,000 ten-year 3⅛% convertible debentures, due June 20, 1959. **Offering**—Offered for subscription by stockholders of record May 6 at the rate of $100 debenture for each six shares of capital stock held at par (flat). Rights expire June 20. **Underwriting**—None. **Proceeds**—For advances to subsidiary and associated companies; for the purchase of stock offered for subscription by such companies; for extensions, additions and improvements to its own telephone plant; and for general corporate purposes.

Arkansas-Missouri Power Co. (5/25)
May 10 filed $3,150,000 of interim notes, due Dec. 15, 1951. Notes are convertible after June 15, 1950, into one share of preferred and two shares of common for each $45 principal amount of notes. **Underwriter**—The First Boston Corp. **Proceeds**—To pay $700,000 of temporary bank loans, to provide $1,000,000 for current general corporate purposes and for construction.

Avco Manufacturing Corp., New York
April 22 filed 387,041 shares ($3 par) common stock. The stock is reserved for issuance to officers and supervisory executives under the company's "stock option plan" or options assumed by the company upon acquisition of the assets of its former subsidiary, American Central Manufacturing Corp. on Nov. 20, 1946.

Bangor (Me.) Hydro-Electric Co.
April 22 filed 4,840 additional shares ($100 par) 4¼% preferred stock and 54,304 shares of common stock (par $15). **Offering**—The preferred is offered to preferred and common stockholders of record May 11 at rate of one new share for each 20 preferred shares held and one new preferred for each 80 common shares held at $98½ per share. The 54,304 shares of common stock is offered to holders of common stock at the rate of one share for each four shares held at $23 per share. Rights expire May 27. **Dealer Manager**—Smith, Barney & Co. **Proceeds**—For corporate purposes, including capital expenditures.

• Bowling-Lanes, Inc.
May 11 (letter of notification) 2,500 shares of 6% cumulative preferred. Price $100 per share. No underwriter. To construct building. Office: Room 300, Marion E. Taylor Building, 312 South 4th Street, Louisville 2, Ky.

Bridgeport (Conn.) Hydraulic Co. (6/6)
April 26 filed 36,000 shares of common stock (par $20). **Underwriters**—Smith, Ramsey & Co., Gaynor, Clemence & Co., Chas. W. Scranton & Co., Hincks Bros. & Co., T. W. Watson & Co. **Offering**—To be offered initially to present stockholders on a 1-for-10 basis. **Proceeds**—To reduce short-term bank loans. Expected June 6.

Carnegie Mines Ltd., Montreal, Canada
April 27 filed 500,000 shares of common. **Price**—60 cents per share. **Underwriters** — Name by amendment. **Proceeds** — For working capital, exploration, development and other purposes.

Centennial Turf Club, Inc., Denver, Colo.
May 5 filed $1,600,000 of 6% sinking fund debentures, due Jan. 1, 1965, and 160,000 shares of Class A ($5 par) common. **Offering**—To be offered in units of $100 of debentures and 10 shares of stock at $150 per unit. **Underwriter**—Brereton, Rice & Co., Inc., Denver, Colo. **Proceeds**—To build and operate a horse-racing track.

• Central Fibre Products Co., Inc.
May 6 (letter of notification) 3,000 shares of non-voting common ($5 par). Price, $22 per share. **Underwriter**—Bosworth, Sullivan & Co., Denver, Colo. Proceeds to selling stockholders.

Cincinnati Gas & Electric Co.
April 15 filed 249,334 common shares (par $8.50). **Offering**—Offered for subscription by stockholders of record May 12 in ratio of 1-to-9 at $22 per share. Rights expire June 3. **Underwriting**—None. **Proceeds**—To finance construction program.

Columbia Gas System, Inc. (5/24)
May 6 filed 1,345,300 shares common stock. **Offering**—Holders of 13,452,874 shares of common stock of record May 24 will be given rights to subscribe to the new shares at the rate of one share for each ten shares held, plus additional shares not taken up by others. Price, by amendment. Subscription rights will expire about June 14. **Underwriting**—None, but The First Boston Corp. has agreed to use its best efforts to form and manage a group of security dealers to solicit stockholders' subscriptions for the new shares. **Proceeds**—Will be added to the general funds to be used in connection with company's 1949 construction program, which will involve net expenditures presently estimated at $61,958,000.

Consolidated Caribou Silver Mines, Inc.
March 30 filed 376,250 shares (no par) common stock. **Price**—$2.50 per share. An additional 50,000 shares will be sold to the underwriter at $1 per share for investment. **Underwriter**—William L. Burton & Co., New York. **Proceeds**—To develop mining properties. Offering expected after June 3.

• Consolidated Engineering Corp.
May 9 (letter of notification) 2,000 shares of ($1 par) common. Price, $5 per share. No underwriter. For working capital. Office: 620 N. Lake Avenue, Pasadena, Calif.

• Consolidated Gas Electric Light & Power Co. of Baltimore
May 18 filed shares of common stock. **Offering**—To be offered for subscription by stockholders of record June 2 in a 1-for-6 ratio. **Underwriters**—The First Boston Corp., Alex Brown & Sons; John C. Legg & Co. **Price**—Expected about $60 a share. **Proceeds**—To finance company's construction program.

• Co-op Insurance Co., Phoenix, Ariz.
May 5 (letter of notification) 25,000 shares of capital stock (par $1). Price, par. **Underwriter**—Arizona Cooperative Association. Proceeds to be deposited with the State Treasurer in accordance with the Benefit Insurance Stock Corporation Act of 1947 of Arizona.

• Eastern Cooperatives, Inc., New York
May 16 (letter of notification) 5,000 shares of capital stock (par $5). Price, par. No underwriting. Working capital.

• Elementary Horsemanship, Inc., Washington, D. C.
May 10 (letter of notification) 439 shares of capital stock (par $10). Price, par. No underwriter. For the printing and promotion of sales of a book entitled "Elementary Horsemanship." Office: Mills Building, 17th & Pennsylvania Avenue, N. W., Washington, D. C.

• Forbes & Wallace, Inc., Springfield, Mass.
May 11 (letter of notification) 1,000 shares of class B common (no par) stock. Price $16 per share. **Underwriters**—Tifft Brothers and F. S. Moseley & Co. Proceeds to selling stockholder.

• Front Range Oil and Drilling Co.
May 5 (letter of notification) 600,000 shares of common stock (par 5 cents). Price, par. No underwriter. For drilling or equipment. Office: 615 Cooper Building, Denver, Colo.

• Harwill, Inc., St. Charles, Mich.
May 9 (letter of notification) 3,000 shares of common (par $1). Price, par. **Underwriter**—Charles E. Bailey & Co., Detroit.

• Hotelevision, Inc., L. I. City, N. Y.
May 17 (letter of notification) 300,000 shares of class A stock (par 25¢). **Underwriter**—Cantor, Fitzgerald & Co., New York. **Price**—$1 per share. Working capital, etc. [Registration statement relating to 480,000 class A shares at $1 per share became effective April 18, 1949, and application for withdrawal of same was made May 13. No shares of the above were sold.—Ed.]

• Inland Oil Co., Salt Lake City
May 12 (letter of notification) 600,000 shares (25c par) common. Price, 50c per share. **Underwriter**—Weber-Millican Co., New York. Of the proceeds $35,000 will be used to validate the option contract executed by Aladdin Petroleum Corp., part will be for equipment and drilling expenses and the balance will go for working capital. Office: 521 Felt Building, Salt Lake City, Utah.

• Jack Pine Mining Co., Denver, Colo.
May 5 (letter of notification) not to exceed 23,420 shares ($1 par) common stock. To be offered in exchange for Consolidated Smelting & Metals Corp. stock. No underwriter. Office: Room 507, Boston Building, Denver, Colo.

• Kansas Gas & Electric Co.
May 16 filed 550,000 shares of common stock (no par) of which American Power & Light Co. (parent) will sell 450,000 shares. **Underwriter**—Exemption from competitive bidding is sought in connection with this offering. If competitive bidding probable bidders include: Union Securities Corp.; Blyth & Co., Inc. and the First Boston Corp., (jointly); Merrill Lynch, Pierce, Fenner & Beane and Kidder Peabody & Co. (jointly); White, Weld & Co. **Proceeds** — Kansas Gas will use proceeds of 100,000 shares to pay for part of its construction program and to repay short-term bank loans from Guaranty Trust Co. of New York and eight Kansas banks.

Keller Motors Corp., Huntsville, Ala.
May 10 filed 5,000,000 shares (3¢ par) common. **Underwriter**—Greenfield, Lax & Co., Inc., New York. **Price**—$1 per share. **Proceeds**—For plant facilities, equipment and working capital to manufacture a low-priced, medium-sized station wagon. Expected latter part of June.

• Key Broadcasting System, Inc., Oyster Bay, N. Y.
May 13 (letter of notification) 300 shares 6% cumulative preferred stock and 300 shares (no par) common. To be offered in units of one share of each at $100 per unit. No underwriting. To expand operating facilities.

• Keystone Custodian Funds, Inc., Boston
May 12 filed 300,000 shares Keystone Custodian Fund certificates of participation series BA. **Underwriter**—Keystone Co. of Boston. Price, market. **Proceeds**—For investment.

• Lawrence Portland Cement Co., New York
May 16 (letter of notification) 7,000 shares of common stock (par $10). **Underwriter**—Hemphill, Noyes & Co., New York. **Price**—$13.75 per share. Proceeds to estate of Marion S. Ackerman, deceased.

• Leeds & Northrup Co., Philadelphia, Pa.
May 18 filed 2,200 employees' shares and 2,200 participating shares. To be sold by the trustees under the deed of trust. Initial offering price of the employees' shares will be between $116 and $118 per share, while the participating shares will be offered at $100. **Underwriting**—None.

• Liberty Loan Corp., Chicago, Ill.
May 9 (letter of notification) 3,600 shares ($10 par) 75¢ cumulative convertible preferred. Price, $15 per share. **Underwriter**—Sills, Fairman and Harris, Inc., Chicago. Working capital.

• Liquid Carbonic Corp., Chicago, Ill.
May 9 (letter of notification) 2,000 shares of common. Price, market. **Underwriter**—Walston, Hoffman & Goodwin, San Francisco. Proceeds to selling stockholders.

Mar-Tex Realization Corp., Dallas, Texas
April 28 (letter of notification) 35,000 shares of common. Price, market. **Underwriters**—Chas. B. White Co., Houston; First Southwest Co. and Rauscher Pierce & Co., Dallas. Proceeds go to Bennett L. Wooley, a stockholder.

• Maumee Oil Corp., Toledo, Ohio
May 12 filed 8,000 shares (no par) common, of which only about 2,614 shares will be offered publicly at $100 per share. No underwriter. For general working capital.

• Mid-Continent Airlines, Inc.
May 6 (letter of notification) 13,496 shares of common stock ($1 par). To be offered in exchange to stockholders of Parks Air Lines, Inc., on the basis of one share of common for 2.4 shares of Parks Air common. Office: Waltower Building, 102 East Ninth Street, Kansas City 6, Mo.

• New York State Electric & Gas Corp.
May 16 filed 40,000 shares ($100 par) cumulative preferred stock **Underwriter** — Names to be determined through competitive bidding. Probable bidders: W. C. Langley & Co.; Lehman Brothers and Glore, Forgan & Co. (jointly); Harriman Ripley & Co. **Proceeds**—To be applied to the discharge of presently outstanding $4,000,000 of short-term notes and for new construction.

New York State Electric & Gas Corp. (5/25)
May 9 filed 73,333 shares ($25 par) common. **Offering**—To be offered stockholders on a 1-for-12 basis. **Underwriters** — The First Boston Corp., Lehman Brothers, Wertheim & Co. and Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To discharge $3,000,000 of presently outstanding $4,000,000 of short-term notes and for new construction.

• North American Gold Mines, Inc.
May 5 (letter of notification) 162,400 shares of capital stock, of which 81,200 shares will be sold publicly at $1 per share and 81,200 shares will be issued in consideration of the transfer to the corporation of contracts for the purchase of mining claims. No underwriter. To develop mining properties. Office: 1011 South Fremont, Alhambra, Calif.

Oklahoma Gas & Electric Co. (6/7)
May 5 filed $10,000,000 first mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Merrill Lynch, Pierce, Fenner & Beane and White, Weld & Co. (jointly); The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Union Securities Corp. (jointly); Lehman Brothers and Blyth & Co., Inc. **Proceeds**—For construction and payment of $3,500,000 of short-term bank loans. Expected June 7.

NEW ISSUE CALENDAR

May 23, 1949

Raymond Concrete Pile Co.______________Common

May 24, 1949

Columbia Gas System Inc.______________Common
Missouri-Kansas-Texas RR.
Noon (EDT)____________Equip. Trust Ctfs.

May 25, 1949

Arkansas-Missouri Power Co.________Interim Notes
Delaware Lackawanna & Western RR.
Noon (EDT)____________Equip. Trust Ctfs.
New York State Electric & Gas Corp.______Common
U. S. Oil & Gas Corp.______________Common

June 1, 1949

Northern Pacific Ry.____________Equip. Trust Ctfs.
Public Service Co. of Okla.______________Preferred
Southern Indiana Gas & Electric Co.__________Bonds
Sperry Corp.______________Debentures
Staten Island Edison Corp.______________Bonds

June 2, 1949

Seaboard Air Line RR.
Noon (EDT)____________Equip. Trust Ctfs.

June 6, 1949

Bridgeport Hydraulic Co.______________Common
Virginia Electric & Power Co.______________Bonds

June 7, 1949

Oklahoma Gas & Electric Co.______________Bonds
Public Service Electric & Gas Co.__________Bonds

June 8, 1949

Southern Ry.______________Equip. Trust Ctfs.

June 15, 1949

Staten Island Edison Corp.______________Preferred

June 27, 1949

Atlantic Coast Line RR.__________Equip. Trust Ctfs.

● **Plains Pipe Line Co., Newcastle, Wyo.**
May 13 (letter of notification) 3,000 shares of common. Price, $100 per share. No underwriter. For construction of pipe line.

Power Petroleum Ltd., Toronto Canada
April 25 filed 1,150,000 shares ($1 par) common of which 1,000,000 on behalf of company and 150,000 by New York Co., Ltd. **Price**—50 cents per share. **Underwriters**—To be named by amendment. **Proceeds**—For administration expenses and drilling.

Public Service Co. of New Hampshire
May 9 filed 104,804 shares of common stock (par $10). **Offering**—To be offered to stockholders on a one-for-eight basis. Unsubscribed shares will be sold to underwriters, who also may receive compensation for soliciting stockholder subscriptions. The company requests that the offer and sale of the stock be exempted from competitive bidding. New England Public Service Co. (parent), holder of 58.88% of the outstanding common stock of Public Service will surrender for cancellation the warrants evidencing its preemptive right to subscribe for the additional common stock to which it is entitled and will not subscribe to any of the new common stock. Common stockholders will be entitled to purchase shares in excess of their ratable allotment; and holders of the company's preferred stock will be offered a similar opportunity to subcribe to the new, unsubscribed shares. **Proceeds**—For construction and repayment of short-term bank borrowings. **Underwriters**—Names by amendment. Probable underwriters: Kidder, Peabody & Co.; Blyth & Co., Inc.

● **Public Service Co. of New Hampshire**
May 18 filed $4,000,000 first mortgage bonds, series E, due 1979. **Underwriters** — Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp. and Coffin & Burr Inc. (jointly); Kidder, Peabody & Co. and Blyth & Co. (jointly); Smith, Barney & Co. and Harriman Ripley & Co. (jointly). **Proceeds**—For construction, including repayment of short-term borrowings for such purposes.

Public Service Co. of Oklahoma (6/1)
May 9 filed 50,000 shares of ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include: Glore, Forgan & Co. and Smith, Barney & Co. (jointly); Harriman Ripley & Co. and Central Republic Co. (jointly). **Proceeds**—To pay the cost of property additions and betterments. Expected June 1.

Public Service Electric & Gas Co. (6/7)
May 6 filed $75,000,000 first and refunding mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Morgan Stanley & Co.; Halsey Stuart & Co. Inc.; The First Boston Corp.; Kuhn, Loeb & Co. and Lehman Brothers (jointly). **Proceeds**—To reimburse, in part, the company for past construction expenditures; and to pay at maturity $9,475,300 of Hudson County Gas Co. first mortgage 5% gold bonds, due Nov. 1, 1949. Bids expected to be opened June 7.

● **Puget Sound Seed Co., Inc.**
May 10 (letter of notification) 20,000 shares ($1 par) capital stock. Price, $1.25 per share. No underwriter. For additional working capital. Office: 1411 Fourth Avenue Building, Seattle, Wash.

● **Raymond Concrete Pile Co., New York (5/23)**
May 12 (letter of notification) 389 shares of common (treasury) stock (no par). Price, market (about $18.75 per share. Stock will be sold on New York Curb Exchange through Kidder, Peabody & Co. General corporate purposes.

Sightmaster Corp., New Rochelle, N. Y.
May 9 (letter of notification) 425,940 shares of common stock (par 5¢) and options for 107,562 common shares (owned by Michael Kaplan and sold for his benefit). **Underwriter**—Willis E. Burnside & Co., New York. **Price**—50¢ per share. General fund to be used in expansion of manufacturing facilities, working capital, etc. [In September, 1948, 99,000 shares of stock (par 25¢) were offered at $3 per share of which 28,010 shares sold. Unsold 70,990 shares split into 425,940 shares and now being offered.]

South Carolina Electric & Gas Co.
April 11 filed 308,000 shares common stock (par $4.50). **Offering**—Offered for subscription by stockholders of record May 13 on a 1-for-4 basis at $7.62½ per share. Rights expire June 1. **Underwriter**—Kidder, Peabody & Co., New York. **Proceeds**—To finance construction program.

Southern Indiana Gas & Electric Co. (6/1)
April 29 filed $3,000,000 first mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; White, Weld & Co. and Shields & Co. (jointly); Kidder, Peabody & Co.; Union Securities Corp.; Harriman Ripley & Co.; Carl M. Loeb, Rhoades & Co. **Proceeds**—To finance a continuation of the company's construction program. Bids expected to be opened on or about June 1.

● **Southern Natural Gas Co., Birmingham, Ala.**
May 13 filed 141,853 shares ($7.50 par) common stock. **Offering**—To be offered to stockholders on a 1-for-10 basis. **Underwriter**—None. **Proceeds**—For construction and for additional common stock investment in Southern's subsidiary, Alabama Gas Corp.

Southern Union Gas Co., Dallas Texas
May 9 filed $3,679,464 of sinking fund debentures, due July 1, 1964, and 306,622 shares ($1 par) preference stock under a proposal to merge with Texas Public Service Co. Stockholders of the latter company will receive $12 of debentures and one share of preference for each share of Texas Public Service common. Of the preference being registered 18,378 shares will be used by Southern Union to pay for expenses of merger. **Underwriter**—E. H. Rollins & Sons, Inc.

● **Sperry Corp., New York (6/1)**
May 13 filed $20,000,000 sinking fund debentures, due June 1, 1969. **Underwriter**—Lehman Brothers, Merrill Lynch, Pierce, Fenner & Beane and Hornblower & Weeks. **Proceeds**—To discharge bank loans and for working capital.

Staten Island (N. Y.) Edison Corp. (6/1-15)
May 9 filed $2,750,000 of first mortgage bonds, due May 1, 1979, and 40,000 shares ($100 par) cumulative preferred stock. **Underwriters**—Names to be determined through competitive bidding. Probable bidders on bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.; Kidder, Peabody & Co.; Otis & Co. On Preferred: W. C. Langley & Co.; Kidder, Peabody & Co.; Stone & Webster Securities Corp. and White, Weld & Co. (jointly); Lehman Brothers; The First Boston Corp. **Proceeds** — To pay off $1,500,000 of short-term notes and for construction. Bonds expected June 1 and stock June 15.

Suburban Gas Service, Inc., Ontario, Calif.
March 31 (letter of notification) 4,000 shares ($25 par) series B preferred and 20,000 shares ($1 par) common—issuable upon conversion of preferred. **Price**—Preferred $25 per share. **Underwriters**—Wagenseller & Durst, Inc., and Lester & Co. To buy Antelope Liquid Gas Co.

● **Sunny Hills Mutual Water Co., Fullerton, Calif.**
May 11 (letter of notification) 892 shares ($1 par) capital stock. Price, $15.95 per share. No underwriter. Proceeds to Sunny Hills Ranch, Inc.

Texas Engineering & Manufacturing Co., Inc., Dallas, Texas
April 22 (letter of notification) not more than $100,000 ($1 par) common stock. Price, at market. **Underwriters**—Beer & Co.; Merrill Lynch, Pierce, Fenner & Beane and Rauscher, Pierce & Co.

Trenton Chemical Co., Detroit, Mich.
March 30 filed 131,841 shares 6% cumulative convertible class B preference ($2 par). **Underwriters**—Straus & Blosser, Chicago; Carr & Co., Detroit, and Lester & Co., Los Angeles. **Proceeds**—To build chemical plant and to replace working capital used for capital additions. [Under a previous registration statement (No. 7637), which became effective Sept. 24, 1948, company sold 43,159 shares of 6% cumulative preferred stock for a total of $97,108 and removed 131,841 shares from registration March 21, 1949.]

U. S. Oil & Gas Corp., Shreveport, La. (5/25)
April 26 (letter of notification) 800,000 shares (10¢ par) common. **Price**—37½¢ per share. **Underwriter**—Stewart J. Lee & Co., New York. For drilling and equipping five wells and for working capital.

Virginia Electric & Power Co. (6/6)
May 4 filed $20,000,000 first & refunding mortgage bonds, due June 1, 1979. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: White, Weld & Co.; Union Securities Corp.; Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly). **Proceeds**—For construction. Bids expected to be opened June 6.

● **Wasatch Combined Mining & Milling Co.**
May 13 (letter of notification) 500,000 shares of capital stock (par 10c). Price, par. No underwriter. To purchase necessary equipment for the mining of ore, to build necessary buildings, for exploratory work, and for working capital and development work. Office: 307 Darling Building, 320 South Main Street, Salt Lake City, Utah.

● **Youth Films, Inc., Hollywood, Calif.**
May 9 (letter of notification) 500 shares of capital stock. To be sold privately at $100 per share. No underwriting. To defray costs of producing four feature motion pictures and for working capital. Office: 7904 Santa Monica Boulevard, Hollywood 46, Calif.

Prospective Offerings

Atlantic Coast Line RR. (6/27)
May 9 reported company plans the sale about June 27 of $8,685,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

● **Baltimore & Ohio RR.**
May 18 reported company is expected to be in the market about June 20 for the sale of about $5,000,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Bristol-Myers Co.**
July 5 stockholders will vote on increasing authorized common stock from 1,400,560 shares to 2,500,000 shares Company has no plans at present for immediate disposal of any of the additional common shares. Traditional underwriter, Wertheim & Co.

● **Brooklyn Union Gas Co.**
May 12 Clifford E Paige, Chairman, states that directors intend to refinance bank loan of $14,625,000 on a permanent basis as soon as an adequate record of actual earnings and other conditions permit.

● **Caterpillar Tractor Co.**
May 17 stockholders, among other things, created an issue of 350,000 shares of new preferred stock. Company is negotiating with a nation-wide investment banking syndicate headed by Blyth & Co., Inc., for the public offering early in June of 250,000 shares of new preferred.

● **Central Illinois Public Service Co.**
May 12 the company, according to M. S. Luthringer, President, is contemplating offering 446,000 shares of common stock to common stockholders, in the ratio of one new share for each five shares outstanding. Dependent upon market conditions, it is expected this offering will be made about the middle of June and will be underwritten by a group of investment bankers under the leadership of The First Boston Corp.

● **Clinton Industries, Inc.**
May 16 reported company plans sale of 150,000 common shares at an early date with Merrill Lynch, Pierce Fenner & Beane and Newhard, Cook & Co., as underwriters.

● **Columbia Gas System, Inc.**
May 13 reported company has under consideration the sale early in September of $11,500,000 debentures. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Merrill Lynch, Pierce, Fenner & Beane; Salomon Bros. & Hutzler; Lehman Brothers.

Delaware Lackawanna & Western RR. (5/25)
The company has issued invitations for bids to be received at the office of J. G. Enderlin, Treasurer, at Room 2008, 140 Cedar Street, New York, before noon (EDT) May 25 for the purchase of $3,150,000 in 1-to-15-year equipment trust certificates. The certificates will be dated April 1, 1949, and are to mature $210,000 annually April 1, 1950-64. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Freeman & Co.; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

● **Iowa Power & Light Co.**
May 12 reported company may be in the market this year with $7,500,000 first mortgage bonds and $3,000,000 common stock, the latter to be sold to United Light & Rys. Co. (parent). Bidders for bonds may include Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Kidder, Peabody & Co.; Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co., and Union Securities Corp. (jointly); The First Boston Corp.; Glore, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co.

● **Kansas City Power & Light Co.**
May 12 reported company will require additional public financing to complete its construction and expansion program. Details not available.

● **Missouri-Kansas-Texas RR. (5/24)**
Company will receive bids up to noon (EDT) May 24 at its office, St. Louis, for the purchase from it of $2,550,000 equipment trust certificates, third series, 1949. The certificates are to mature semi-annually Dec. 15, 1949, through June 15, 1964. Probable bidders: Halsey, Stuart & Co., Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly).

● **New England Electric System**
May 17 stockholders voted to increase common stock from 7,500,000 to 8,500,000 shares and to reduce par from $20 to $1. Expected sufficient stock, to raise $6,000,000, will first be offered stockholders. Probable bidders include Merrill Lynch, Pierce, Fenner & Beane, Kidder, Peabody & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co. and Goldman, Sachs & Co. (jointly).

(Continued on page 46)

(Continued from page 45)

● **Northern Pacific Ry. (6/1)**
The company has issued invitations for bids to be received June 1 for the purchase from it of $6,450,000 in equipment trust certificates, to be dated June 15, 1949, and to mature serially June 15, 1950-64. Probable bidders: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.; Lee Higginson Corp.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

● **Pacific Gas & Electric Co.**
May 17 reported company plans the sale in October of $75,000,000 of bonds. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.

Pennsylvania Electric Co.
May 9 reported company is expected to be in the market for $5,000,000 of bonds and $5,000,000 of preferred stock, when its parent, Associated Electric Co., has retired all of its indebtedness. Probable bidders for preferred: Kuhn, Loeb & Co.; Kidder, Peabody & Co.; Smith, Barney & Co.; White, Weld & Co.; W. C. Langley & Co. For bonds: Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp.; Equitable Securities Corp.

Rochester Gas & Electric Corp.
May 10 new money requirements of the corporation for the balance of 1949 amount to $3,500,000, but no definitive plans for raising these funds have yet been developed. In addition, company's management is considering the advisability of carrying out the refunding of its series G, H, and I bonds, amounting to approximately $8,000,000.

● **St. Joseph Light & Power Co.**
May 12 company plans to sell bonds to the public and additional common stock to parent, Continental Gas & Electric Corp., in order to finance its 1949-51 construction program. Probable bidders for bonds: Blyth & Co., Inc.; Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); White, Weld & Co.; Salomon Bros. & Hutzler.

● **Seaboard Air Line RR. (6/2)**
Bids for the purchase of $3,435,000 equipment trust certificates series F, dated June 1, 1949, due in 15 equal annual installments, will be received at office of Willkie, Owen, Farr, Gallagher & Walton, 15 Broad Street, New York, up to noon (EDT) June 2. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co. and Lehman Brothers (jointly); The First Boston Corp.

● **South Carolina Power Co.**
May 17 reported plans to sell $4,000,000 of bonds this year to finance part of its 1949 construction program. Probable bidders include: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; Blyth & Co., Inc.; W. C. Langley & Co. and Carl M. Loeb, Rhoades & Co.

● **Southern Ry.**
May 17 stockholders approved the creation of a new first mortgage on the East St. Louis (Ill.)-New Albany (Ind.) line, and with approval of the ICC to sell $12,474,000 principal amount of bonds in order to refinance the company's St. Louis Division first mortgage 4% bonds maturing Jan. 1, 1951. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; The First Boston Corp.

● **Southern Railway (6/8)**
The company has issued invitation for bids to be received June 8 for the purchase from it of $7,500,000 in equipment trust certificates, to mature in 30 equal semi-annual installments. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman Ripley & Co. and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.).

● **Southwestern Gas & Electric Co.**
May 12 company asked SEC permission to sell competitively $4,500,000 first mortgage bonds, series C, due June 1, 1979, and $2,500,000 preferred stock. Probable bidders include: Blyth & Co., Inc., and Stone & Webster Securities Corp.; Lehman Brothers; Halsey, Stuart & Co. Inc. (bonds); White, Weld & Co.; Harriman Ripley & Co.; The First Boston Corp.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane.

Texas Power & Light Co.
May 11 reported company plans to sell $7,000,000 of bonds to the public in order to finance its construction and expansion program. In addition, it will sell $3,000,000 of common stock to its parent, American Power & Light Co. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Carl M. Loeb, Rhoades & Co. and E. H. Rollins & Sons (jointly); Union Securities Corp.; Drexel & Co. and Hemphill, Noyes & Co. (jointly); Lehman Brothers; Salomon Bros. & Hutzler.

● **Union Gas System, Inc.**
April 18 stockholders increased authorized preferred stock (par $100) from 5,000 to 8,000 shares and authorized common (no par) from 80,000 to 100,000 shares. Company proposes to offer 2,000 preferred shares in June to residents of Kansas only.

● **West Coast Transmission Co., Ltd.**
May 13 announcement was made of the initiation of a project for the construction of a 1,400 mile 30-inch natural gas pipe-line to run from northern part of Province of Alberta, Canada, west and then south through passes in the Canadian Rockies to Vancouver, B. C. and thence south through Washington and Oregon into Northern California. An act has been passed by the Senate and House of Commons of the Canadian Parliament and sanctioned by the Governor General creating the West Coast Transmission Co., Ltd., the Canadian company to construct and operate the Canadian part of the pipe line. It is expected an American corporation will be formed to construct and operate the American end of the line and that application will be made to the FPC in due course for a certificate of necessity. The completed line will, it is expected, cost about $175,000,000. The financing of the projected line will be handled by Eastman, Dillon & Co.

● **Worcester County Electric Co.**
The company has petitioned the Massachusetts Department of Public Utilities for authority to issue $5,500,000 of first mortgage bonds, to mature in not exceeding 30 years, and bear interest not over 3¼%. Proceeds would be used to pay indebtedness to banks, incurred to finance temporarily a portion of the company's construction program. It is anticipated the sale of the bonds will be consummated in early July.

Securities Salesman's Corner

By JOHN DUTTON

The trend toward selling the smaller investor is continuing. We have just received an interesting campaign designed to go directly to the man in the shop—the fellow who is working for wages. Burton M. Strauss of William M. Rosenbaum & Co., 285 Madison Avenue, New York, members of the New York Stock Exchange, has sent us a circular that was mailed to the employees of the General Electric Company in Pittsfield, Mass. In order to tell you about the circular we have to reconstruct what appears to be a well planned campaign.

Recently the Federal Loan Company of Pittsfield, made the first public offering of its stock in its 22-year history. An issue of 14,960 shares of $1.20 cumulative participating preferred stock was underwritten by a syndicate headed by William M. Rosenbaum & Co. The day of the offering an advertisement appeared in the "Union News" which is a bi-weekly publication of the General Electric Company's Local 255. The evening before this advertisement was run in the union paper, the Berkshire "Evening Eagle" also ran a two-column news item that Wall Street had now come to Main Street in earnest. The story was headed, "Loan Company Seeks Capital From General Electric Labor." The story of the Pittsfield Loan Company was presented in the main highlights; its long record in business, how it had grown, the reason for the additional working capital, the underwriters, included a picture of the head of the loan company, and concluded by saying "that Berkshire County investors have had little opportunity to invest in local organizations through new issues of stock." Mention was also made that the Pittsfield representative of the selling group was Tifft Brothers, managed by Harry B. Johnson.

A copy of this newspaper story was then reproduced on one side of the circular that was sent to the General Electric employees. (Below it was the usual information required by the Securities and Exchange Commission on all such mailings. This gave the number of shares offered, a brief description, price to public, underwriting discounts, proceeds to company, and the exemption and approval or disapproval clause etc.) On the opposite side of the circular, on the top half of the page, there was printed a map of the territory served by the Federal Loan Company, and a reproduction of the offering advertisement. At the bottom of the page this legend appeared: "If you are interested in further information with regard to this stock, it may be obtained from Harry B. Johnson, Tifft Brothers," and gave the firm's address and telephone number.

It would appear that this type of advertising would pay if used on situations such as was the case in this instance. First of all the price of the stock at $20.00 was one that would have appeal to those who might have some savings to invest in a local security that was well known, and that offered a 6% return wth the further attraction of a participating interest in additional earnings of the company. There was also a total gross spread of $2.40 in the business and it would appear that this was large enough to allow for the expense involved in soliciting orders that might average out to be fairly small. The publicity obtained in the Berkshire "Evening Eagle" practically told the highlighted story of the offering in itself, and the combined use of this reprint along with the original offering announcement, when put together in a simple form (using both sides of the circular) we believe is an original and effective, yet inexpensive mailing. By sending it to the employees of the General Electric Company, there were no doubt quite a few who received it who knew of the Federal Loan Company, since it was a well established local concern with whom they may have even done business at some time or other.

This campaign has the following good points to recommend it: Favorable publicity was obtained for the issue before it was formally offered. (This may have created interest among some other investors in addition to General Electric employees.) The advertisement in the labor paper was the right place to go if you were looking for business from this type of investor. Such an ad would stand out because of the absence of other financial advertisements. The circular mailing as a follow-up told the whole story and where to go to find out more if you were interested. We would say that it was a good job—paving the way for business and a strong personal follow-up either over the telephone or by additional mailings.

COMING EVENTS

In Investment Field

May 18-21, 1949 (White Sulphur Springs, W. Va.)
Investment Bankers Association Spring Meeting of the Board of Governors at the Greenbrier.

May 20, 1949 (Baltimore, Md.)
Baltimore Security Traders Association annual outing at the Hillendale Country Club.

May 23, 1949 (Chicago, Ill.)
Association of Stock Exchange Firms' members assemble en route to spring meetings.

May 23, 1949 (Chicago, Ill.)
Bond Club of Chicago luncheon meeting, Illinois Room of the La Salle Hotel.

May 24, 1949 (New York City)
New York Society of Security Analysts annual meeting and election at Schwartz Restaurant.

May 24-28, 1949 (Denver, Colo.)
Association of Stock Exchange Firms spring meeting in Denver and Salt Lake City.

May 26, 1949 (Chicago, Ill.)
Bowling League of Bond Traders Club of Chicago annual dinner at Morrison Hotel, and installation of officers.

May 27, 1949 (New York City)
Toppers Annual Outing at Rock Springs Country Club, West Orange, N. J.

May 27, 1949 (Philadelphia, Pa.)
Philadelphia Securities Association annual field day at the Aronomink Golf Club, Aronomink, Pa.

May 30, 1949 (New Orleans, La.)
Bond Club of New Orleans annual field day at the Metairie Country Club.

June 3, 1949 (Chicago, Ill.)
Bond Club of Chicago annual field day at Knollwood Club, Lake Forest, Ill.

June 3, 1949 (Connecticut)
Security Traders Association of Connecticut annual summer outing at Wampanoag Country Club, West Hartford, Conn.

June 3, 1949 (New York City)
Bond Club of New York 25th Annual Field Day at Sleepy Hollow Country Club, Scarborough, N. Y.

June 6, 1949 (Chicago, Ill.)
Chicago Stock Exchange annual election.

June 6-7, 1949 (Cincinnati, Ohio)
Municipal Bond Dealers Group Annual Spring Party. Cocktail party for out of town guests June 6th; outing June 7 at the Kenwood Country Club.

June 8, 1949 (New York City)
Municipal Forum of New York annual meeting and election.

June 9, 1949 (Boston, Mass.)
Boston Securities Traders Association 30th Annual Outing and Golf Tournament at the Weston Golf Club, Weston, Mass.

June 9, 1949 (New York City)
Municipal Bondwomen's Club spring luncheon meeting at 12:30 p.m. at The Wall Street Club.

June 10, 1949 (Buffalo, N. Y.)
Bond Club of Buffalo annual picnic at the Wanakah Country Club.

June 10, 1949 (Los Angeles, Calif.)
Bond Club of Los Angeles field day and outing at the Bel-Air Country Club.

June 10-12, 1949 (Minneapolis, Minn.)
Twin City Security Traders Association Summer Party at Gull Lake.

June 10, 1949 (New York City)
Municipal Bond Club of New York Field Day at Sleepy Hollow Country Club.

June 15, 1949 (Minneapolis, Minn.)
Twin City Bond Club annual picnic at the White Bear Yacht Club.

June 17, 1949 (Boston, Mass.)
Municipal Bond Club of Boston Annual Outing at the Concord Country Club, Concord, Mass.

June 17, 1949 (Cleveland, Ohio)
Cleveland Security Traders Association annual summer party at Kirtland County Country Club.

June 17, 1949 (Detroit, Mich.)
Bond Club of Detroit annual outing at the Grosse Ile Golf and Country Club.

June 17, 1949 (New Jersey)
Bond Club of New Jersey Annual Field Day at Rock Spring Club, West Orange, N. J.

June 21-24, 1949 (Canada)
Investment Dealers Association of Canada 33rd annual meeting at Minaki Lodge, Ontario.

June 24-26, 1949 (Los Angeles, Calif.)
Security Traders Association of Los Angeles annual spring party at the Arrowhead Springs Hotel.

June 24, 1949 (New York City)
Investment Association of New York annual outing at the Westchester County Club, Rye, N. Y.

June 24, 1949 (Toledo, Ohio)
Bond Club of Toledo 15th annual outing at Inverness Country Club.

June 25, 1949 (Chicago, Ill.)
Bond Traders Club of Chicago annual summer outing at the Nordic Hills Country Club.

June 28, 1949 (Detroit, Mich.)
Securities Traders Association of Detroit and Michigan annual summer party at the Lochmoor Club, Grosse Pointe Woods, Mich.

June 28, 1949 (Omaha, Neb.)
Nebraska Investment Dealers Bond Club spring frolic at the Omaha Country Club, to be preceded by a cocktail party June 27 at the Omaha Athletic Club in honor of out-of-town guests.

Sept. 9-11, 1949 (Oregon)
Pacific Northwest Group of the Investment Bankers Association 1949 meeting at the Gearhart Hotel, Gearhart, Oregon.

Oct. 5-9, 1949 (Colorado Springs, Colo.)
National Security Traders Association Annual Convention at The Broadmoor Hotel.

Dec. 4-9, 1949 (Hollywood, Fla.)
Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Our Reporter's Report

American Telephone & Telegraph Co.'s new ten-year 3⅛% convertible debentures now have been trading on a "when issued" basis for the better part of a fortnight without arising anything in the way of real trading enthusiasm.

In fact dealers and traders alike are a little disappointed by the seeming lack of interest at the moment, but they are hopeful that as the time for delivery of "rights" approaches the issue may more nearly approach an "investment basis."

Major buyers, of course, are not particularly interested in the conversion privilege, which the debentures carry (as such) though they realize that with a good stock market this privilege could add handsomely to their marketability.

At the moment, keen observers report that there is no appreciable position in the debentures, either long or short. Of course the tremendous size of the undertaking, it could run up to $395,000,000 or thereabouts, is probably a retarding influence at the moment.

But the experts figure that institutions would be interested in a large way if the 3⅛s should work down around the yield levels now ruling for the company's 2¾s due in 1961 and the 2¾s of 1957. The former is currently moving around 101¾, to yield about 2.61%, and the latter around 103½, to yield about 2.50%.

The new issue traded initially around 109¼ and is now around 107⅛. It would have to move in the vicinity of 105½ to give an indicated yield of around 2.50%.

Spur to Equity Financing?

Evidently the Federal Reserve Board was moved, in its recent action halving margin requirements on securities accruing on "rights," by a desire to help spur equity financing, or its equivalent.

Certainly the reduction in margin requirements on such purchases from 50 to 25% should prove helpful to American Telephone's huge debenture undertaking, which through its conversion feature, is equivalent to equity financing.

A board spokesman in explaining the action, said it aimed to restore preferential credit terms for securities bought under subscription privileges and "make financing easier for private industry."

Putting It on the Line

Giving his views at a recent forum sponsored by the New York Financial Writers Assn. A. F. Tegen, head of General Public Utilities Corp., declared flatly that SEC's competitive bidding rule "is no go as to commons and preferreds."

He had recited the experience of Pennsylvania Electric Co. when it sold 101,000 shares of preferred, in 1945, to 838 accounts of which only 84 were in its territory, to replace about a like amount of preferred held by 6700 accounts in its area. "If it is desirable to the home owned and if it can be home owned even in part," he declared, "just how do you do it under competitive bidding?"

Declaring that utilities do not need the rule, he argued that better deals can be negotiated for equities. "Certainly if broadening the equity market is desirable," he contended, "competitive bidding is no help."

New Issues

Southern California Edison Co.'s big offering of 800,000 shares of new $25 par value common stock was placed on the market yesterday, May 18, at $32¼ per share.

The company will use the proceeds, approximately $24,800,000 for financing its huge new construction program.

Underwriters are today offering United Biscuit Co. of America's 80,000 shares of no par value cumulative preferred stock.

Sale of this issue will put the company in funds to liquidate a $3,000,000 note held by a bank and increase its general funds.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C. — Haughton Ehringhaus is now connected with Merrill Lynch, Pierce, Fenner, 302 South Salisbury Street.

With Leo Schoenbrun

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Robert L. Schoen is with Leo Schoenbrun, 1373 Westwood Boulevard.

HELP WANTED

PUBLIC UTILITY ANALYST

Securities Analyst specializing in public utilities is wanted by a prominent non-member firm with nationwide branch offices and wire facilities. Good statistical background and knowledge of markets are essential. Send particulars to Box G 513, Commercial & Financial Chronicle, 25 Park Place, New York 8.

MEETING NOTICE

The New York Central Railroad Company

Albany, N. Y., April 16, 1949.

The Annual Meeting of the Stockholders of The New York Central Railroad Company, for the election of Directors and of three Inspectors of Election and the transaction of such other business as may be lawfully brought before the meeting, will be held at the principal office of the Company, Room 20, Union Depot, in the City of Albany, N. Y., on Wednesday, May 25, 1949, at 12 o'clock Noon.

Stockholders of record at 3 o'clock P. M., on April 22, 1949, will be entitled to vote at the meeting.

JOSEPH M. O'MAHONEY, Secretary.

Financial Notice

THE COLUMBIA GAS SYSTEM, INC.

EARNING STATEMENTS FOR THE TWELVE MONTHS ENDED MARCH 31, 1949

The Columbia Gas System, Inc. has made generally available to its security holders corporate and consolidated earning statements for the period April 1, 1948 to March 31, 1949, such period beginning after the effective date of the Corporation's Registration Statement for $45,000,000 principal amount of 3¼% Debentures Due 1973, filed with the Securities and Exchange Commission pursuant to the Securities Act of 1933, as amended. Upon request, addressed to the Corporation at 120 East 41st Street, New York 17, N. Y., copies of such earning statements will be mailed to the Corporation's security holders and to other interested parties. Such earning statements are made generally available to security holders in accordance with the provisions of Section 11(a) of the Securities Act of 1933, as amended.

THE COLUMBIA GAS SYSTEM, INC.
by E. D. BIVENS, Treasurer

May 14, 1949.

SITUATION WANTED

SALES MANAGER OR WHOLESALE REPRESENTATIVE

Executive, 25 years investment securities experience with good houses, seeks connection. Experience in retailing, wholesaling, developing leads. Have built large successful sales organizations of from 15 to 30 salesmen. Quadrupled retail sales gross in one year with established firm.

Capable of wholesaling Mutual Fund Shares in any territory. Willing to travel. Have many dealer contacts. Average annual income has been over $20,000 for past five years. Box P 519, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

DIVIDEND NOTICES

THE ALABAMA GREAT SOUTHERN RAILROAD COMPANY

New York, N. Y., May 17, 1949.

A dividend of $4.00 per share on the Preferred Stock of The Alabama Great Southern Railroad Company has been declared payable June 29, 1949, to stockholders of record at the close of business May 28, 1949.

A dividend of $4.00 per share on the Ordinary Stock has been declared payable June 29, 1949, to stockholders of record at the close of business May 28, 1949.

J. J. MAHER, *Secretary.*

Atlas Corporation

Dividend on Common Stock

NOTICE IS HEREBY GIVEN that a regular quarterly dividend of 40¢ per share has been declared on the Common Stock of Atlas Corporation, payable June 20, 1949, to holders of such stock of record at the close of business May 27, 1949.

WALTER A. PETERSON, *Treasurer*

May 12, 1949.

BRIGGS & STRATTON CORPORATION

89th DIVIDEND

The Board of Directors has declared a quarterly dividend of twenty-five cents (25c) per share and an extra dividend of fifteen cents (15c) per share, less 2.81 per cent Wisconsin privilege dividend tax, on the capital stock (without par value) of the Corporation, payable June 15, 1949, to stockholders of record June 1, 1949.

L. G. REGNER, Secretary

May 17, 1949

AMERICAN CYANAMID COMPANY

PREFERRED DIVIDEND

The Board of Directors of American Cyanamid Company on May 17, 1949, declared a quarterly dividend of eighty-seven and one-half cents (87½c) per share on the outstanding shares of the Company's 3½% Cumulative Preferred Stock, Series A, payable July 1, 1949, to the holders of such stock of record at the close of business June 3, 1949.

COMMON DIVIDEND

The Board of Directors of American Cyanamid Company on May 17, 1949, declared a quarterly dividend of thirty-seven and one-half cents (37½c) per share on the outstanding shares of the Common Stock of the Company, payable July 1, 1949, to the holders of such stock of record at the close of business June 3, 1949.

R. S. KYLE, *Secretary*

DIVIDEND NOTICES

Johns-Manville Corporation

DIVIDEND

The Board of Directors declared a dividend of 40¢ per share on the Common Stock payable June 10, 1949, to holders of record May 31, 1949.

ROGER HACKNEY, *Treasurer*

NATIONAL CONTAINER CORPORATION

On May 9, 1949, a regular quarterly dividend of 10c per share was declared on the Common Stock of the National Container Corporation, payable June 10, 1949 to all stockholders of record May 20, 1949.

HARRY GINSBERG, Treasurer

Newmont Mining Corporation

Dividend No. 83

On May 17, 1949, a dividend of SEVENTY-FIVE CENTS (75c) per share was declared on the Capital Stock of NEWMONT MINING CORPORATION, payable June 14, 1949, to stockholders of record at the close of business May 27, 1949.

GUS MRKVICKA, *Treasurer.*

E. I. DU PONT DE NEMOURS & COMPANY

WILMINGTON, DELAWARE: *May 16, 1949*

The Board of Directors has declared this day regular quarterly dividends of $1.12½ a share on the outstanding Preferred Stock—$4.50 Series and 87½¢ a share on the outstanding Preferred Stock—$3.50 Series, both payable July 25, 1949, to stockholders of record at the close of business on July 8, 1949; also $2.50 a share, as the second interim dividend for 1949, on the outstanding Common Stock, payable June 14, 1949, to stockholders of record at the close of business on May 23, 1949.

L. DU P. COPELAND, *Secretary*

AMERICAN WOOLEN COMPANY INCORPORATED

"THE GREATEST NAME IN WOOLENS"

AT the meeting of the Board of Directors of American Woolen Company, held today, the following dividends were declared:

A regular quarterly dividend of $1.00 per share on the $4 Cumulative Convertible Prior Preference Stock payable June 15, 1949 to stockholders of record June 1, 1949.

A regular quarterly dividend of $1.75 per share on the 7% Cumulative Preferred Stock payable July 15, 1949 to stockholders of record July 1, 1949.

A quarterly dividend of $1.00 per share on the Common Stock payable June 15, 1949 to stockholders of record June 1, 1949.

Transfer books will not be closed.

Dividend checks will be mailed by the Guaranty Trust Company of New York.

F. S. CONNETT, *Treasurer.*

May 18, 1949.

DIVIDEND NOTICES

LOEW'S INCORPORATED

MGM PICTURES · THEATRES · MGM RECORDS

May 18, 1949

The Board of Directors has declared a quarterly dividend of 37½c per share on the outstanding Common Stock of the Company, payable on June 30, 1949, to stockholders of record at the close of business on June 9, 1949. Checks will be mailed.

CHARLES C. MOSKOWITZ
Vice Pres. & Treasurer

The Board of Directors of

PITTSBURGH CONSOLIDATION COAL COMPANY

at a meeting held today, declared a quarterly dividend of 75 cents per share on the Common Stock of the Company, payable on June 11, 1949, to shareholders of record at the close of business on May 27, 1949. Checks will be mailed.

CHARLES E. BEACHLEY,
Secretary-Treasurer

May 16, 1949.

The Singer Manufacturing Company

The Board of Directors has declared a quarterly dividend of $1.50 per share and an extra dividend of $1.50 per share payable on June 14, 1949 to stockholders of record at the close of business on May 25, 1949.

D. H. ALEXANDER, Secretary.

May 10, 1949.

REEVES BROTHERS, INC.

DIVIDEND NOTICE

A quarterly dividend of 25c per share has been declared, payable July 1, 1949, to stockholders of record at the close of business June 3, 1949. The transfer books of the Company will not be closed.

J. E. REEVES, *Treasurer*

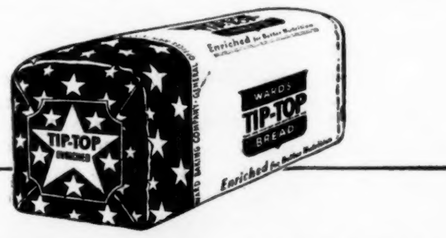
May 16, 1949

TISHMAN Realty & Construction Co., Inc.

DIVIDEND NOTICE

The Board of Directors declared a quarterly dividend of thirty-five cents (35¢) per share on the Capital Stock of this corporation, payable June 25, 1949, to stockholders of record at the close of business June 15, 1949.

NORMAN TISHMAN,
President



WARD BAKING COMPANY

The Board of Directors has declared the following dividends:

PREFERRED DIVIDEND—

The regular quarterly dividend of $1.37½ a share on the Preferred Stock payable July 1, 1949 to holders of record June 16, 1949.

COMMON DIVIDEND—

A quarterly dividend of 25 cents a share on the Common Stock payable July 1, 1949 to holders of record June 16, 1949.

L. T. Melly, Treasurer

475 Fifth Ave., New York City

May 17, 1949

WARDS TIP-TOP BREAD — WARDS TIP-TOP CAKES

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

WASHINGTON, D.C.—From now on to the end of the present session of Congress the overwhelming domestic issue can very likely become the Federal budget.

This is so, negatively, because the Congress has finally demonstrated to the official Democratic leadership that such things as repeal of Taft-Hartley, broad extension of the scope of wage-hour and social security legislation, and compulsory health insurance, are dead ducks.

It is so positively because the public announcement of the revenue estimate for fiscal '50 by the Congressional Joint Committee on Internal Revenue Taxation, has touched off the budget issue as surely as the starter's gun releases the sprinters for the 30-yard dash.

This estimate is what the boys have been waiting for. It is the estimate upon which the Capitol places the greatest reliance. What the Joint committee, in the work reflecting the able staff headed by Colin Stam, said in effect was that from the revenue standpoint alone a deficit of $2.9 billion is in the works for the Treasury year starting July 1. Revenues, in other words, will be poorer than the President estimated in January by $2.1 billion.

It is not the business of the Joint Committee staff to estimate expenditures officially, although they do this unofficially for the MC's on the Congressional taxing committees. Unless the scattered and undirected economy drive now pulsing around in Congress actually gets somewhere, it is altogether likely that a deficit, barring higher taxes, will be endorsed by the probability of expenditures higher than Mr. Truman estimated. As has been pointed out heretofore, the public has failed to catch the fact that this session of Congress has been liberal indeed, and the public has failed to catch this because of the attention given to the defeats administered to Mr. Truman's several simple ways of achieving Utopia.

* * *

What faces the Congress, of course, is the choice among three most unpleasant alternatives. One of these is to raise tax rates. The other is to cut expenditures. The third is to do nothing about either and guarantee the return of a Budgetary deficit. The deficit would be cash as well as budgetary, for the excess of cash intake over outgo, was estimated in the January budget at only about $1.5 billion.

All three of these alternatives are hot political issues, dramatic, and full of headlines.

Of the three the one about which the guessing is most predominant at the moment is that there will be no boost in tax rates.

For one thing, Congress is now pretty well satisfied that the volume of business activity ahead is not secure enough for the risking of higher tax burdens. If the spring upsurge had been strong, then there might have been a disposition to hike the corporation income tax rate from around 38% to 45%. The feeling now is that this isn't safe to do, that the dampening effect upon business activity might very well offset—or worse—the beneficial effect upon Treasury revenues of the boost in the rates.

The problem is further complicated by the absence of Mr. Truman's leadership. If Congress was to try to settle for some $2.1 billion of additional corporation income taxes, it would take all the cooperation and prestige of a politically successful President to keep the excise tax boys from simultaneously nicking a billion off receipts. Mr. Truman will not cooperate. Instead he still insists upon opening up the personal income taxes in the "middle" brackets and the inheritance tax schedule, and that he wants $4 billion.

So if there is a tax bill excise taxes will be cut and personal and business tax burdens will be hiked sharply—all to little avail so far as avoiding a budgetary deficit is involved, for the deficit without expenditure cuts is indicated at not less than $3 billion and perhaps $4 billion.

* * *

Second of the alternatives is the reduction of expenditures. So far the "economizers" have not got beyond thinking that by chiseling away at administrative expenditures or adopting a magic formula for saving something like $3 billion, the job can be done. Congress won't save much by cutting administrative expenditures until the time comes when it makes a fundamental attack upon administrative waste, and that is not in sight. An average of 5% on such expenditures won't cut the prospective deficit by more than one-third by the most optimistic guess.

What Congress will have to do to avoid a deficit by cutting expenditures is to cut out the hundreds of expensive subsidies which the Congress itself has voted, myriads of subsidies for veterans, for farmers, for millions. These are "permanent" and statutory, and only by cutting out subsidies or beginning to cut out subsidies can the Congress — which this year has been adding to subsidy clients — achieve even so small an economy as $3 billion.

It is not impossible that Congress will finally view the situation so seriously that it will come to grips with this fundamental of the budget problem. But before that happens it will have to sink in to Congress that it has already committed the Federal Treasury to more outlays than can be afforded without confiscation, inflation, or something equally dire.

* * *

Congress, or at least those leaders who savvy the problem, very seriously want to prevent a budgetary deficit from developing by their inaction. They are stymied, however, by the fact that Mr. Truman is on the side of the beneficiaries of spending and will turn their efforts to protect the government's fiscal situation by economizing, to their acute political disadvantage.

* * *

What has happened during the last several weeks is that the Federal Reserve Board has made a major, carefully planned drive to get itself out from behind the eight ball of what it sees as its impotence to deal with monetary affairs—and so far as it now appears, the Board has failed.

The Board's four-stage relaxation of credit was the first part of this campaign. Twice in one month the Board eased the terms prescribed for installment loans. It lowered margin requirements on listed stocks, and it reduced by $1.2 billion the $2.1 billion of additional member bank reserves caller into being last September under the law empowering the "Fed" to impose additional reserves up to four more percentage points on demand deposits and 1½ points on time deposits.

Of course these steps were taken in response to the changing condition of the economy. Nevertheless, whether incidentally or otherwise, this program, taken so quickly and in such dramatic speed, did have the effect of impressing Congress.

Congress, or at least those Congressmen who are charged with framing banking legislation, were convinced that the Board meant to be flexible in its use of controls. Board spokesmen hardly bothered to conceal their intention of so impressing Congress.

Subsequently the Senate Banking Committee was importuned to get a move on with legislation extending the authority of the Board to call these additional reserves into being, and continuing the law under which the Board can write out the maximum terms of consumer installment loans. These laws expire June 30.

So a subcommittee of the Senate Banking Committee held hearings last week, and in an atmosphere in which the key Congressmen concerned were more disposed than they had been in months to continue the higher reserves and the consumer loan control law.

In the opening appearance Chairman Thomas B. McCabe of the Federal Reserve Board took two other unusual steps to impress the Congress with his circumspection toward controls. One of these was to publicly climb off and abandon the Board-Truman proposal that the Board should have authority to call into being, when it deemed this necessary, 10 additional percentage points of reserve requirements on demand deposits, and four points on time deposits.

It was taken for granted that with the passing of the inflationary boom the 10 and 4 proposition was dead. Nevertheless, the Board has worked for years to get White House backing for the higher reserve proposition so that the Board could have more of a voice in national monetary policy. It sees little chance under its conventional powers to have such a voice when the bond pegs are rigidly maintained.

So in view of its long insistence upon having power to boost reserves so that it could "meet both inflation and deflation," in view of the fact that the White House was finally "sold," the circumstances would suggest paying at least lip service to this proposition.

Instead Gov. McCabe publicly kicked it over, and took the second unprecedented step of saying that if the 4 and 1½ reserve law were renewed he would not raise reserves.

* * *

Notwithstanding the investment of this rather large effort, the chances for extension of Regulation W and the higher reserves are probably now poorer than they were before the Board began its campaign in early March.

And the reason for the Board's failure was one of those comparatively rare occasions when public hearings before a committee exercise a major influence. The support for the Board's proposition was thin. The number of commercial bankers, loan companies, and industrial bankers who descended upon the hearing to tear the Board's stand to pieces, was remarkable.

One of the things which debilitated the Board's support was its insistence upon subjecting non-member banks to the supplemental reserve requirements. The Congress was not convinced that a small segment of reserve requirements should be applied to non-members for the sake of establishing the precedent that the Board could horn in on the control of the state banking system.

(This column is intended to reflect the "behind the scene" interpretation from the nation's Capital and may or may not coincide with the "Chronicle's" own views.)

BUSINESS BUZZ

"You're a floor Broker? How interesting! How many floors do you buy and sell each day?"

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